

SCIENTIFIC INVESTMENT FOR EVERYBODY

THE MAGAZINE OF WALL STREET

Tariff Reform

What Will It Do to Industrial Stocks?

By Byron W. Holt, Chairman Tariff Reform Committee

Is the World's Money Becoming Exhausted?

A Vital Question to the Investor and Business Man

Opportunities for the Small Investor

How He May Increase the Interest Return on His Savings

Bonds—A Prophecy

What Does the Future Hold in Store for High Grade Securities?

Side Lights on Wall Street—How to Forecast Business Conditions—What an Investor Ought to Know—Electric Railway Securities—Investing for Profit—Standard Oil Stocks—The Money Trust—Market Advisers—Notes on Office Trading.

Bond Buyer's Guide
Public Utility Notes
Bargain Indicator
Investment Digest
Mining Stocks

Inquiries
Figure Chart
Essential Statistics
Situation Summarized
The Outlook

MONTHLY
25c.

JANUARY, 1913
THE MAGAZINE OF WALL STREET
U. S. EXPRESS BUILDING, 2 RECTOR STREET

BY THE YEAR
\$3.00 IN ADVANCE

Vol. Eleven

NEW YORK

No. 3

THE MAGAZINE OF WALL STREET.

CHARLES HEAD & CO.

Stock Brokers

14 Wall St., New York

74 State St., Boston

What "The Magazine of Wall Street" Stands For

THIS magazine is now in its sixth year. We have twice increased our reading pages recently, so that the magazine is now 50 per cent. larger.

In our early issues we blocked out for ourselves the field of practical, conservative speculation and investment. These subjects are always inextricably mixed and combined. We consider them together or separately, as occasion arises. So far as practicable, we classify our matter into speculative articles or investment articles, according to their predominating character. Thus we have a Bond Department, Public Utility Department, Investment Department, Traders' Department, statistics, the current financial situation, etc., —in addition to general articles and editorials.

We have endeavored to develop each department in a systematic and well-ordered growth, and to add new features as demand for them appeared. As the magazine broadened out, we concluded that the name "The Ticker and Investment Digest," under which it was at first published, did not fully represent us, so we changed the title to **THE MAGAZINE OF WALL STREET**. We also began to issue **THE TREND LETTER**, giving our opinion as to the general trend of the stock market.

We can see that our work is not without its effect. We have always discouraged the gambling kind of speculation; and there is less of it today than ever before within the memory of the present generation. We have promoted careful, intelligent study of market conditions; and there is more of that kind of study now than ever before. We have counseled the public to buy in the panics and sell on the booms; and it is the universal testimony of brokerage houses that a larger proportion of the public does this now than ever before. We have insisted that there is a science of speculative investment; and more people are ready to admit that today than ever before.

In the beginning, we laid down a rule for the selection of our articles. That rule is still in force today. It is this:

"WILL THIS ARTICLE HELP OUR READERS MAKE MONEY?"

And many readers have written us or stated to us that they have made hundreds or thousands of dollars as a result of ideas obtained from our columns.

We feel that we have a record of achievement behind us, and we take satisfaction in it because it has been independently won. We have truckled to nobody, curried favor with nobody, have never relaxed our standard of honesty toward our readers, and we wear the collar of no special interest.

We hope to make the history of this magazine one of systematic and continuous progress in the rendering of a practical benefit to readers.

What Our Subscribers Say About Us

New York, N. Y., August 5, 1912.

"..... I am happy to state that I have not missed one copy since Nov. 1908, and moreover I have preserved every one of them. It would not be flattery to state that your magazine is a school for those who are the least interested in finance and economics."

—R. E. A. (Business Man.)

* * *

Richmond, Va., November 13, 1912.

"..... I have been a reader of **THE MAGAZINE OF WALL STREET** from its first issue. It has given me many good points."

—C. A. F. (Business Man.)

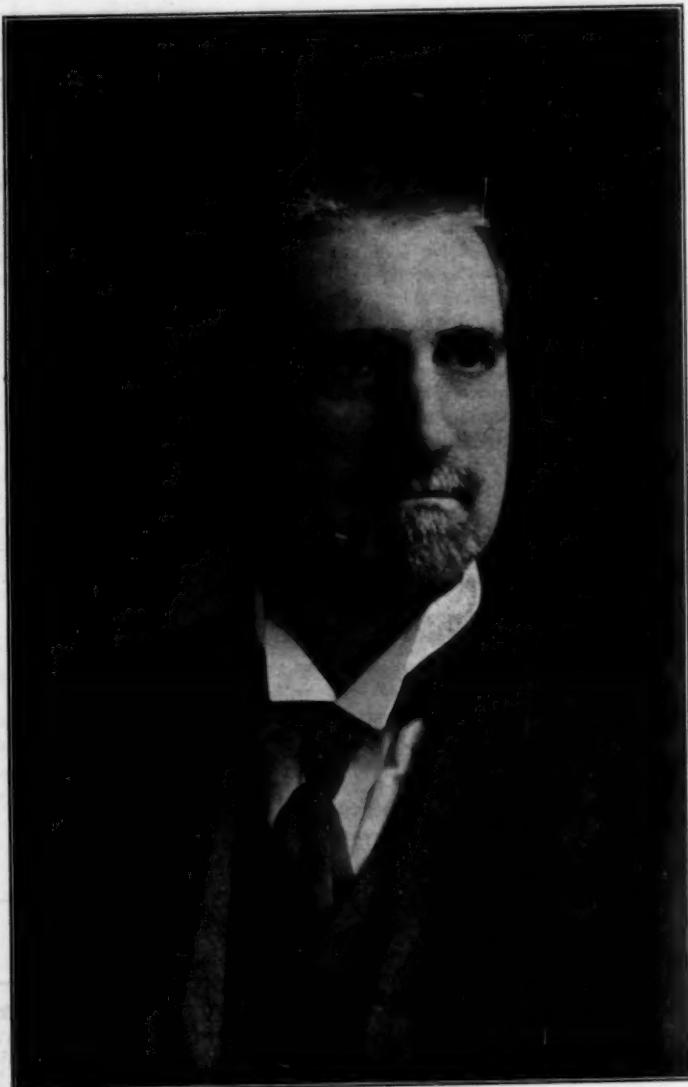
Boston, Mass., October 30, 1912.

"..... There is no doubt but what the work of your magazine represents the greatest effort that has ever been made to rationalize stock trading."—J. S. W. (Business Man.)

* * *

Watsonna, Minn., June 30, 1912.

"..... I am very much pleased that you have restored the Bond Buyers' Guide. This department alone should be worth to a subscriber many times the annual subscription fee."—C. K. B. (Vice-Pres. Bank.)



BYRON W. HOLT

Chairman Tariff Reform Committee, Reform Club



THE MAGAZINE OF WALL STREET

(FORMERLY THE TICKER AND INVESTMENT DIGEST)

SCIENTIFIC INVESTMENT FOR EVERYBODY.

Vol. 11

JANUARY, 1913

No. 3

Tariff Changes and Security Values

By BYRON W. HOLT, Chairman Tariff Reform Committee of the Reform Club

[The following careful analysis of the effect of probable tariff changes, prepared by a man who has made a life study of the subject, is peculiarly timely and suggestive. Mr. Holt's discussion of the position of individual stocks is especially worthy of the thoughtful attention of the investor.]

THE three important questions for the holders of stocks to consider, as regards coming tariff changes, are:

- 1—What probable tariff changes will be made?
- 2—What will be the probable effects upon special stocks?
- 3—What will be the probable effects upon general business and the stock market as a whole?

PROBABLE TARIFF CHANGES

In my opinion, those holders of stocks who are counting upon conservative action on the tariff and no more radical changes than were made by the Wilson-Gorman bill of " perfidy and dishonor"—as Grover Cleveland characterized it when he let it become law without his signature—are making a mistake. There are many reasons for thinking that somewhat radical changes in tariff duties will be made, and made promptly.

Perhaps the most important reason for this opinion is found in the fact that the cost of living, which is now at rec-

ord figures, is still rising. In this country, as in several other high-tariff countries, the people are demanding lower duties in order to cheapen the prices of commodities. The Democrats made high prices and high duties their chief issue and pledged themselves, if elected, to reduce duties to a tariff-for-revenue only basis.

Such a reduction, under existing conditions, would be, by most holders of stocks, and especially by most officials of tariff-protected industrial stocks, considered extremely radical. It would, for instance, put nearly all trust products on the free list for most trusts (that is, industrial combinations) sell their products for export—frequently at lower than domestic prices—and, as a rule, but little revenue is obtained from the importation of competing foreign products. Sugar and woolens constitute, perhaps, the most important exceptions and the duties on these products should be reduced, because they are very important articles of food and clothing.

Only the radical reduction of duties

on the necessities of life will sufficiently lower the cost of living to impress consumers and allay the discontent that is already widespread and is rapidly becoming dangerous. Compromising and trimming and failure to reduce duties radically, because of strong special interests, would quickly put the Democrats in disfavor and turn the country towards the Progressive and Socialist parties. The menace of these two parties and the desire of the Democrats to hold their jobs as law-makers furnishes a strong political reason in favor of radical tariff reduction.

Another reason is provided by the fact that the present Democratic Congress has already passed fairly radical tariff bills. If, now that the Democrats have power to make their bills laws, they should put through much less drastic bills, they would justly be accused of bad faith and would probably suffer politically for their mistakes.

Another reason for expecting radical reductions of tariff duties comes from the fact that most Senators are now, or soon will be, nominated—and probably also elected—by popular vote. They, therefore, owe allegiance less to special interests and political bosses and more to the people at large than they did when Senators Gorman, Brice and Smith, in 1894, kicked out of their party traces and voted for protective duties on many articles.

Woe betide any Democratic senator who, under present economic and political conditions, attempts to stand against the tariff measures framed by his party's leaders! Politically, he will almost certainly be doomed, for the Democrats of no state will be likely to uphold him in voting for the special interests, even of his state, as against the general good of all. Besides, it is doubtful if there are left, in the Senate, many Gorman, Brice, Smith and Bailey senators who are inclined to serve special interests. A fair test came the other day when it was announced from Washington (which city is now overrun with lobbyists as perhaps never before) that the two senators from Colorado were declaring that they would not vote to reduce duties on sugar and lead ores. A day or two

later Senator Thomas said that he had no intention of breaking away from his party on the tariff question, because of any special industries in his state. He also said that he thought it was safe to say that his colleague, Senator Shafroth, who was then out of the country, held similar views. Within two days from Senator Thomas' denial the prices of Smelters and of Beet Sugar stocks broke from 4 to 7 points.

Another reason why the Democrats are likely to succeed in their efforts to remove or radically reduce tariff duties on important articles of food and clothing is due to the probable fact that far greater publicity than ever before will probably be given to the activities in Washington of the agents and lobbyists of the privilege-seeking corporations. Apparently, it will be the policy of the leading Democrats to screen nobody, not even their own party members who shall attempt to secure or retain favors for certain interests. It is, perhaps, largely because this policy is countenanced by the leading committees of the present House and because the big privileged interests cannot longer make close, friendly and secret connections with these privilege-dispensing committees, that some of the big holders of stocks have become frightened and have been selling stocks almost regardless of prices. I expect to see this process continue for weeks and months to come. Probably, however, the good stocks (those that are not of protected corporations or of bad trusts) will soon become relatively strong, and some of them may even advance materially before next April.

The latest information from Washington indicates that the leading Republicans are planning to let the Democrats reduce duties as much as they please. The Republicans are probably working on the theory that drastic tariff reduction will result in business depression and will be bad, politically, for the Democratic party.

For these reasons I consider it fairly safe to assume that the Democrats—aided probably by some of the Progressives—will proceed conscientiously and unitedly to redeem their pledges to the country and to reduce the cost of living by reducing tariff duties very

materially. I also think it safe to assume that the first revision to be made will be done through separate bills for the different schedules. Afterwards, but probably not at the extra session of Congress—which, by the way, is likely to be called before April 15, the date mentioned by Governor Wilson—a general revision of the entire bill, including its abominable administrative features, its maximum and minimum absurdities and other archaic and monarchical features, may be expected. The tariff question, therefore, is likely to be with us for at least two years.

While many important products will, perhaps, be put on the free list, the average reduction that will be made on duties on imported articles will probably not exceed 35 or 40 per cent. An idea of the extent of the reductions is indicated by the following table taken from Chairman Underwood's speech of August 15, last:

RÉSUMÉ OF DEMOCRATIC BILLS.

Measure.	Equivalent ad valorem rate. (Average per cent.)	Import, Democratic 1911. bill.	Estimated saving to Consumers. (a 12-month period)
Free list	18.75	Free	\$390,000,000
Wool—			
Raw	42.20	29.00 }	50,000,000
Manufactured	87.65	48.36 }	
Cotton	47.05	27.06	88,000,000
Metals	34.51	22.42	80,000,000
Chemicals	25.72	16.66	17,000,000
Sugar	33.95	Free	115,000,000
Total			\$740,000,000

Here is an estimated saving to consumers of \$740,000,000 a year from the proposed revision of only about six schedules. If the remaining eight schedules should be similarly reduced, the saving would undoubtedly exceed

Tariff Losses of the U. S. Steel Corporation.

Product.	Tons.	Duties pro- posed.	Effective differ- ence.	Tariff Loss.
Steel rails	1,568,028	\$3.92	10%	\$2
Billets, bars, etc.	874,474	6.72±	10%	1
Plates	630,512	8.96±	10%	4
Structural shapes	547,186	8.96±	15%	2
Merchant bars, hoops, etc.	1,221,606	8.96±	free	1,641,558
Tubing and pipe	863,670	22.40±	10%	5
Wire and products	1,613,754	11.40±	free	1
Sheets and tin plate	1,079,046	8.96±	20%	16,137,754
All other	1,077,972	8.96±	10%	5
Totals	9,476,248			5,395,230
Less exports	1,746,492			3,233,916
Domestic sales	7,729,756			31,180,276

±More or less. The rates here given are, perhaps, a fair average of the present rates on each product.

\$1,000,000,000 a year. As the Government would not lose more than about \$100,000,000, it is certain that the remaining nine-tenths of the loss would come out of the protected industries. It is also certain that a loss of nearly a billion dollars a year in profits will hurt somebody somewhere.

UNITED STATES STEEL

While it is much less a fact today than it was ten years ago that the steel industries would suffer most by such changes as are now proposed, it is still practically certain that the one corporation that will suffer most is that of the United States Steel Corporation. Ten years ago, I estimated that tariff duties added some \$70,000,000 or \$80,000,000 a year to the net profits of this corporation. Today the tariff probably does not add more than \$50,000,000 a year to this trust's profits, only about \$30,000,000 of which would be taken away by the proposed Underwood bills. Rough estimates of this loss are contained in the table herewith.

These estimates are based on the tonnage of 1911, which, especially for the sales in the domestic market, was about the smallest for many years. The sales in the domestic market in 1912 will probably exceed 10,500,000 tons. An average tariff loss of \$3 a ton, this year, would, therefore, fully equal the tariff loss, last year, of \$4 a ton.

As a matter of fact, I do not think that the Steel Corporation's profits this year would have been reduced \$31,000,000 had the Underwood bill rates been in effect. Because of the abnormal ac-

tivity of the steel industry in Europe and the unusually high prices that have prevailed, there has been but little difference the most of the time this year between the foreign and domestic prices of most steel products. The greatest differences have been on wire, wire nails and tin plates, which have probably averaged \$8 or \$10 a ton higher in the domestic than in the foreign markets, notwithstanding that our exports of these products are very heavy.

In ordinary years—future years, I mean—I think it probable that the present tariff would add \$5 while the Underwood rates would add only \$2 a ton to the value of steel sold at home. This would probably mean a loss of from \$30,000,000 to \$35,000,000 a year, if the proposed Underwood rates should become law. In making these estimates, I do not overlook the fact that the Steel Corporation now has international agreements with English, German and Belgium steel producers as to prices and territory, on rails and plates and, perhaps, also on some other products. In my opinion, these agreements would weaken, rather than strengthen, under free, or approximately free, steel.

The net earnings of the Steel Corporation, in 1911 were \$104,305,465, only \$30,080,619 of which was left for the common stock. The net earnings this year will probably not exceed \$110,000,000, only about \$35,000,000 of which will be left for the common stock—the fixed charges now being about \$2,500,000 greater than they were in 1911. A reduction of \$30,000,000 to \$35,000,000 a year in net earnings, therefore, would probably leave nothing for dividends on the common stock.

In view of probable tariff changes and of other legal and economic changes (such as the decreased efficiency of labor and the dissolution of the trust), I do not expect the 5 per cent. dividend on Steel Common to continue more than another year and doubt it any dividend will be paid on this stock after 1914. Possibly the dividend on the preferred stock will be a little uncertain after 1913 or 1914.

OTHER STEEL STOCKS.

In my opinion, the most of the minor steel companies would lose proportion-

ately less than would the Steel Corporation by the proposed tariff changes. They would lose less because they produce proportionately less of the finer steel products—such as wire, wire products, tin plates, hoops, etc. It is probable, however, that the most of the minor companies would suffer severely by reduced duties. It is also probable that, because of their generally poor financial condition, as compared with the Steel Corporation, the effect of reduced duties on their common and preferred stocks will be very great.

The profits of the Bethlehem Steel Company would probably be \$1,000,000 a year less under the Underwood rates than under the present rates. The loss would come mainly on structural steel and plates. The loss on the projectiles and ordnance would probably be very small. This company, however, is now prepared to turn out many varieties of steel products. As its present net profits are only about \$4,000,000 a year, net earnings would decline about 25 per cent. under the proposed rates. This would mean a loss of about 7 per cent. on either the preferred or common stocks, neither of which has ever paid a dividend. Even after making allowance for Mr. Schwab's genius as a steel manufacturer—so well vouched for by Mr. Carnegie—we would not, with the Underwood rates, expect the preferred stock to be worth much more than half its present price, while the common stock would probably sell for less than one-third of its present price.

The Republic Iron & Steel Company would probably, under the proposed rates, lose from \$500,000 to \$1,000,000 a year. Its principal products are merchant steel and iron bars, structural and agricultural shapes, billets, spikes, nuts, tubular products, etc. A loss of \$500,000 would mean 2 per cent. on the preferred stock which, even under the present rates, does not always earn or pay the full 7 per cent. dividend. With the new rates, the preferred stock should be worth about two-thirds and the common stock about one-third of their respective prices, under the present duties.

The stocks of the other important companies—the Sloss-Sheffield, the Cambria, the Pennsylvania, the Lackawanna, the Colorado Fuel & Iron, etc.

—would, under the proposed rates, probably lose from one-third to one-half their present values. The Colorado Fuel & Iron Company, partly because of its remoteness from the seashore, would, perhaps, lose least, while the Pennsylvania Company, because of its nearness to the Atlantic and, therefore, to its European competitors, would lose most, by the proposed tariff changes. However, as the Pennsylvania Company produces mainly rails and other heavy products, and as it would gain something by free ore (it imports large quantities of ores from its mines in Cuba) the net loss might not be very great.

AMERICAN SUGAR REFINING COMPANY.

Next to the United States Steel Corporation the American Sugar Refining Company would probably lose the most by the proposed tariff changes. Although this company sold some of its beet sugar interests, a few years ago, yet it is generally supposed to still own, or control, 60 per cent. of the beet sugar output of this country. The full output amounted last year to 541,000 tons and will probably exceed 600,000 tons this year. As the duty of 1.9 cents a pound on refined sugar is practically all effective and causes sugar to sell this much higher than it would sell, if sugar were free—as the Democrats propose to make it—it is evident that free sugar would mean a loss of more than \$20,000,000 a year on the beet sugar produced in this country. Nearly, if not quite, half of this loss would fall on the American Sugar Refining Company. This would mean a loss of about 20 per cent. on the \$45,000,000 of common stock of this company. This is considerably more than the average earnings applicable to dividends on this stock. Apparently, therefore, regardless of other considerable losses that it would probably suffer, by free sugar, this company's losses on its beet sugar output would mean the abolition of all dividends on its common stock. The cutting in two of the present duties on sugars—which is about the least that the Democrats are likely to do—would, apparently, make the common stock of this company worth much less than its present price—117.

AMERICAN BEET SUGAR.

This company expects to produce this year about 140,000,000 pounds of sugar. Under free sugar its product would be worth about \$2,600,000 less than it now is. As this company's total net earnings applicable to dividends were last year only \$2,405,573, and are expected to be considerably less this year, and as \$300,000 are required to pay the 6 per cent. dividend on the \$5,000,000 of preferred stock, it is reasonably certain that, with free sugar, no dividend at all could be paid on the \$15,000,000 of common stock. A reduction of only 1 cent a pound in the sugar duty would, probably, put the common stock out of reach of a dividend. Free sugar would also result in a great decline in the values of beet sugar lands, 19,000 acres of which are owned by this company. With free sugar, we would not consider the common stock of the American Beet Sugar Company worth more than \$15 a share. With a duty of 1 cent a pound, this stock might sell for more than \$20 a share.

AMERICAN SMELTING & REFINING.

It is not easy to estimate the effect of free lead, free zinc, and free antimony on the earnings of the American Smelting & Refining Company. Although this company smelts about 90 per cent. of our lead, and is supposed to control the lead market, yet a large part of this lead does not, or need not, belong to this company. Probably 100,000 tons of its own lead are sold in a year—its reports being very meager as to essential facts. The duty on lead is $2\frac{1}{4}$ cents a pound. Ordinarily, there is a difference between export and domestic prices of lead of 1 cent a pound. Free lead, therefore, would lower the net earnings of this company by about \$2,000,000 a year—or 25 per cent. of the present net earnings. This would mean a reduction of 4 per cent. on the \$50,000,000 common stock of this company and would probably reduce the value of the stock about 50 per cent. Free zinc might further reduce profits \$500,000 a year.

The many small independent smelters of lead, zinc, etc., who were, by Payne and Aldrich, jockeyed out of lower duties on their products in 1909,

are working for absolutely free metals. As there is no sound reason for any duty on any of these products, it is highly probable that all will be put on the free list. The fact that the Smelters' trust now has such control of the English and Belgium markets that it has, since the November election, marked up the price of lead abroad from $3\frac{1}{2}$ to 4 cents and marked down the domestic price from 5.10 to 4.35 cents per pound, will neither be likely to fool the new Congress and prevent it from putting lead on the free list nor to prevent a great reduction of profits under free lead.

NATIONAL LEAD COMPANY.

The reports of this company give us but few facts on which to base estimates. Its net earnings, in 1911, were \$2,447,347 or \$150,844 less than they were in 1910. It takes \$1,705,732 to pay the 7 per cent. dividend on the preferred stock and \$619,762 to pay the 3

per cent. dividend on the \$20,655,400 of common stock.

The chief products of this company are painters', plumbers' and canners' materials and printers' metals. While this company would probably gain very much by free lead, it would probably lose even more by free paints, solder, lead pipe, linotype and stereotype metal, lead oxides, etc. Probably also this company would lose from the fact that, with free foreign competition, it would have to compete with pure paints to a far greater extent than it does at present. This would, perhaps, mean that its profits would be reduced by from 10 to 25 per cent. Possibly, however, the improved condition of the country, under lower duties, would lead to an increased demand for paints and other products. I, however, assume that this company will fight against free lead and free paints, and that its net earnings would decline 20 per cent., under free paints. This would leave but little for the common stock.

This article will be concluded in the February issue, when Mr. Holt will take up U. S. Rubber, Corn Products, American Woolen, and all other industries affected.

Origin of the Sherman Law

SOME of the older generation of Wall Street men can let their memories run back twenty-two years to the date when the Sherman law was put upon the statute books. A long history clings about the whole subject. When viewed from the standpoint of the text-book discussion of it, it has every appearance of having been an economic and political necessity to curb the strong tide toward corporate consolidation which set in at that time, and to break up the methods that seemed to be stifling competition.

But some of the old Wall Street habitués tell of a personal side to the promulgation of the law that is unknown to the present generation and forgotten by nearly all of the older people. Whatever there may be in this story here it is in brief outline, as told by one who has been in the Street for forty years.

He states that the Sherman law was conceived with an especial view to one person only and one certain corporation. It will be

remembered that the first case tried under the law involved the American Sugar Company. This company was the indirect target, and eminent counsel for the company was the real target.

According to this story, the genesis of the law lay in the personal antagonism of these two men, resulting from certain previous financial operations conducted in the Wall Street district.

Phrased in market terminology, the narrator states that a "gunning expedition" was the immediate object of perhaps the most famous statute ever put upon the books. Then the statute lay dormant for many years, until another "gunning expedition" was organized.

However all this may have been, the statute was carefully constructed and broadly drawn, and as recently interpreted by the court, it bids fair to remain a most important part of our fundamental structure of law.

Sidelights on Wall Street

By "KODAK"

If a bombshell had burst in the Harriman offices there would have been no greater surprise than that occasioned by the Supreme Court's decision in the case of the Government to dissolve the merger of the Union Pacific and Southern Pacific. From the outset of this case Harriman officials had viewed the outcome with supreme confidence. Harriman himself said that the suit never would have been instituted if he and Roosevelt had continued their friendly relations; that the case was founded on the animosity of Roosevelt.

When the Circuit Court found in favor of the defendants Harriman interests stated that if the Government appealed the case to the Supreme Court it would simply be for political effect.

Harriman interests, therefore, were totally unprepared for an adverse decision. No tentative plan of dissolution had been drawn up. For days following the decision, operating officials, lawyers, and bankers identified with the roads worked almost continuously on a plan that might be approved by the court, and at the same time inflict the least possible injury on holders of securities in Union Pacific and Southern Pacific. The task was monumental. As one official put it: "The marriage knot between Union and Southern has become so firmly tied in the past dozen years that, as J. P. Morgan is reported to have said when he was asked what he thought of the Government suit to dissolve the Steel Corporation, it is 'like unscrambling eggs' to untie it now."

When Harriman interests first discussed the Supreme Court's opinion they thought that it would be possible to save the Central Pacific for the Union Pacific. Wall Street entertained the same belief. The Street remembered it was simply for the purpose of acquiring the Central that Harriman took over the Southern, and it was generally believed that means would be found to retain control of this line, which is the natural extension of Union Pacific, from Ogden

to the coast. But Harriman interests soon thought differently of the matter. While they were undecided Union Pacific shares remained steady. In fact, the stock was strong. Curiously enough, when it was practically decided that the Central Pacific must remain with the Southern, liquidation, heavy and influential liquidation, of Union Pacific began. The stock, in the terms of Wall Street, "broke wide open." In ten days the common dropped over twenty points. The "Street" retaining the belief that the present Union Pacific-Southern Pacific management could accomplish what Harriman virtually failed to do—get the Central without also having the Southern—was at a loss to understand the reason for the decline. Few speculators reaped the harvest of profits that could have been made on the short side of the stock.

Plans of the Harriman management for dissolving the merger have not, at this writing, been entirely formulated, and it will probably be several weeks before all details have been decided upon. What Wall Street would like mainly to know is what disposition will be made of the \$126,650,000 Southern Pacific stock owned by the Union. The popular belief now is that it will be turned over to a banking syndicate in exchange for various securities of an equal market value, and that these securities will be turned into the Union Pacific treasury to take the place of Southern Pacific stock. What the Union Pacific management will really do, if present plans are not changed, is: Sell a part of the stock, distribute a part to shareholders of Union Pacific, and turn a block of it over to the Southern Pacific for a consideration yet to be named. Of the Southern Pacific stock owned by the Union \$108,000,000 is deposited as collateral back of Oregon Short Line bonds. Other securities now held unpledged in Union's treasury will be substituted as collateral.

What is the present value of Union? Some of the very best observers in the

Street who have accurate knowledge of the plan of dissolution believe it is cheap as an investment issue. They say, "Union Pacific will not be vitally hurt by losing the Central Pacific. During the past dozen years a merger of friendship has grown up between the two systems which will not be dissolved. The two roads have much in common, and the new management of the Southern Pacific will work harmoniously with the management of the Union Pacific. The Union Pacific will be given traffic rates over the Central and neither road will suffer materially. Union Pacific, after the merger is dissolved, will pay not less than 7 per cent. on its common stock. Present shareholders will be given securities and cash which, if properly invested, will bring their dividend return up to the full 10 per cent. rate which they now receive. Liquidation in the stock was carried too far—it is oversold."

* * *

The decision has naturally brought to light new and hitherto unpublished stories of Harriman, his ability, and his eccentricities. The following is told by James Stillman: He says that one evening previous to the panic of 1907 he, with his family, went to an opera at the Metropolitan Opera House. Looking across the horseshoe he saw Harriman with his family in an opposite box. Harriman seemed deep in thought and was not paying the slightest attention to the opera. After a half-hour or so Stillman felt a hand on his shoulder, looked up and saw Harriman. Harriman said, "Stillman, I want to see you." Stillman immediately arose, made an apology to his family and followed Harriman, who went to the street and called his car. On the drive to Harriman's house, he, Harriman, spoke hardly a word, and Stillman, believing that some new plan of tremendous importance had been evolved in the brain of the railroad wizard, did not try to open a conversation, not wishing, as he thought, to interrupt Harriman's train of thought. On arriving at Harriman's house they went to the library. Harriman drew up two comfortable chairs and offered Stillman a cigar. Finally Stillman's patience gave way and he said, "Well, Harriman, what is it—what is on the tapis now?" To Still-

man's surprise Harriman exclaimed, "Oh, h—, Stillman, you didn't want to stay there and listen to that stuff, did you?" Harriman evidently preferred a quiet evening.

As I have remarked above, few operators and traders made money in the decline in Union Pacific from above 170 to around 150, but the case was different when Harriman died. At the opening of the market on the morning following the death of Harriman, Bernie Baruch, I am informed, purchased 50,000 shares of Union Pacific at the market for his own personal account, and his profit in the stock averaged slightly over 10 points.

* * *

When St. Paul was at 150 William Rockefeller made the prediction to intimate friends that the stock would go below par. The prediction came true, but I understand that at the bottom of the decline Rockefeller interests began to replace their holdings. These interests are now predicting that it will not be long before the stock is again selling at 150. They are very optimistic as to the outlook for the property now that the Pacific coast extension is beginning to show the earnings of a seasoned property. A St. Paul interest tells me that if earnings continue to show their present rate of gain the common dividend will be placed on a 7 per cent. basis at the July meeting of the board. The road is now earning at the rate of 12 per cent. per annum on its share capitalization, and St. Paul interests believe that returns for the full year will approximate this amount.

The West has been a large buyer of securities during the past two months. However, several Chicago operators, who usually devote their attention to the grain market, have not shared in this characteristic Western optimism, and made a killing on the short side of the market following the Harriman merger decision. I refer to Smathers, Lichstern and their associates. They are reported to have made many thousands on the down side of Union Steel and Reading, the three market leaders.

* * *

J. P. Morgan's distaste for newspaper notoriety is well known. He fidgets

every time a reporter gets near him. This was illustrated at a recent meeting of directors of the Steel Corporation. Dividend meetings of this company bring nearly a score of reporters to the offices of the company. At the meeting in question, Morgan was the first director to leave the board meeting. No reporter present had the temerity, however, to ask him what action had been taken on the dividend, or what the statement of earnings for the quarter ended with the close of the preceding month would show. As Morgan left the Steel Corporation offices he shouldered the reporters aside and approached the elevator cages just in time to see one of the elevators descending. He rushed to the gate, shook it viciously with both hands and yelled with a voice that could be heard a dozen floors below, "Hey! Come back here," and the elevator came back.

* * *

News that Otto Kahn, of Kuhn, Loeb & Co., has disposed of the house he recently bought in London for a half-million dollars has led many to believe that he has abandoned his intention of living on the other side. I understand, however, that from this time on Mr. Kahn will spend a great part of his time abroad and will gradually retire from the firm in which he is now really the directing spirit.

* * *

The drop in Can common from 47½ to below 30 per share was a hard blow to many small speculators around the Street. Execrations against Dan Reid were heard in almost every commission house. In Reid's defence, it must be said that he has always warned his friends not to carry Can common on a

ten or fifteen point margin. As is well known, he has been very bullish on the stock since the time it sold at \$11 per share. He has consistently advised its purchase, and is still predicting that some day it will sell at par. The big break in the stock came after the directors declared a back dividend payment of but one-quarter of 1 per cent. on account of accumulated unpaid dividends. It had been expected that at least 3 per cent., and possibly 4 per cent., would be paid on account of these accumulated dividends. I understand that a big pool in the stock liquidated their holdings and dissolved just previous to the declaration of the back dividends.

When Dan Reid is really active his operations are on a tremendous scale. He is one of the most aggressive operators the Street has ever had, and his wealth is greatly underestimated. He confines his orders to but three or four different houses, and usually gives his commissions in this way: "Buy ten Reading," naming the price, "three Can, seven Lehigh, and twelve Union." It is always understood by his brokers that he means thousands.

* * *

There was a large bull pool in Amalgamated Copper for several months preceding the increase in the dividend rate to 6 per cent. per annum, but just previous to the declaration of the increased rate insiders sold out and the pool dissolved. There is no indication as yet of the re-formation of a bull pool in the stock. On the contrary, sentiment concerning coppers generally is not very favorable. As one interest puts it: "They have been bulled to the limit. The bloom is off the rose."

**A propos of the break in Can:
He who Reids may run. It
would appear that the bull mar-
ket had a Can tied to its tail.**

Is the World's Money Supply Becoming Exhausted?

By MAURICE L. MUHLEMAN
Author of "Monetary Systems of the World," etc.

[Mr. Muhleman, formerly Deputy Treasurer of the United States, is well known to our readers as a financial authority of high rank. The question of the world's money supply is a vital one at the present time, and his views are worthy of a careful and thoughtful consideration by investors.]

THE manifestation of stringency in the world's money markets in the closing week of November, under the influence of which "call money" rates in New York City advanced to 20 per cent. for the first time since the days following the panic of 1907, has naturally given rise to the question whether the financial world has not become so over-expanded that there will be no funds for new financing in the coming year.

A superficial view of the situation would appear to justify such a conclusion, since the position of every banking center, as reflected in the discount rates of the banks, would seem to warrant the opinion that money is so scarce as to leave none available for new commitments of any kind. But this view omits to give due weight to the differentiation between temporary demands occasioned by current business and the demands of a more permanent character; and it makes no allowance for unusual circumstances affecting these temporary demands, which have been influential recently.

The manifestations referred to relate solely to our own current requirements—the needs of what may be called the nation's *operating account*—and have no direct bearing upon the permanent ones—which may be called the needs of the *plant and equipment account*.

If we could have a report of the condition of all the banks in the country as of November 30, 1912, it would no doubt show, upon the whole, that the banks were down to their reserve limits and had no money to spare; but that condition practically recurs every year; banks usually loan, during the busy crop-moving season, to the full limit of their powers under the reserve laws, and something more at times.

The fact that this year they probably have, for the time being, a smaller margin of cash than for some years past, is conclusive evidence that they have had larger demands, owing to the much larger crops and greater cost of handling them; then the circumstance that Europe was so disturbed about the Balkan War that her security markets unloaded millions of dollars of American shares on us, which we were compelled to take up, accentuated the situation here.

The banks were prepared to meet the domestic needs, that is, the demand for funds to move the crops; but they did not anticipate that they would be compelled to finance an unloading of stocks from abroad, for which they were not prepared. It is hence short-sighted to regard the stringency as an indicator of actual shortage of funds, relatively to our needs.

The preliminary report on the condition of the banks of the country as of June, 1912, recently published by the Comptroller of the Currency, gives the individual deposits of all banking institutions of the United States as \$17,024,000,000, an increase over the same in 1911 of \$1,117,700,000. This is a considerable accretion of banking power, and the actual money backing it up increased by \$19,000,000. The supply of cash for the whole country, outside the Treasury, had increased during that year by nearly \$50,000,000; but since June, 1912, there has been a further addition of over \$30,000,000.

If the usual estimate of \$200,000,000 as the amount of extra cash needed to move crops in ordinary years is correct, then we had need for considerably more in this year of plentiful products; this sum is now in a condition of flux, in actual use among the people, gradually finding its way back to the little local mer-

chants and others, eventually landing in the local banks, which, when their accumulations reach a certain point, habitually send the surplus to the centers.

It is a rule, substantially without exception in our history, that the greater the amount of the out-go of cash for these purposes, the greater the return flow when the purpose has been accomplished. It is logical because the people are becoming more and more habituated to the practice of not holding on to cash during normal times, depositing it in banks instead.

It is true that the ratio of reserves of cash to total deposits, shown by the Comptroller's statement referred to, indicates a slight shortage compared with 1911; the figures are 9.25 per cent. for 1912 compared with 9.79 per cent. in 1911; but this is not sufficient to give reason for the apprehension that the local banks will tie up cash to any extent.

It is to be noted that the actual net loss of cash holdings of the New York City banks, from their high point in June last to November 30, was only \$97,000,000, a sum which is not only certain to be made up to them when the money now in flux is returned to the banks, but there is every reason to look for a net gain in excess of that sum.

Incidentally it should be remarked, that the occurrence of this stringency furnishes us with a forcible argument for a reformation of our monetary and banking system, by means of which conditions will be created that will prevent the recurrence of this absurd scramble for cash every year, disturbing not only the stock market but all other interests, even reaching foreign money centers. For when call money goes to 10 or 20 per cent. in Wall Street, it means much higher rates than customary for other loans, and a greater cost laid upon our business at every step, from production to consumption.

It is hardly probable, however, that any such reform will be provided before another year has passed, so that for the present purposes this is purely academic.

A feature of the Comptroller's return, not to be overlooked, is that more than one-half of the great increase in deposits was in savings banks and trust companies, the latter having gained \$379,-

000,000 in the year. Here is where are deposited, more largely than anywhere else, the funds which await opportunity for investment, the dividends and surplus means of the investing public.

Take now the situation abroad:

In the case of the Bank of England, whose usual policy is to regard a 40 per cent. reserve as the minimum, the discount rate was raised to 4 per cent., while its reserve was only a fraction below 50 per cent. and again raised to 5 per cent., although the reserve fell only a trifle more. At present it holds 50 per cent. reserves, a very high margin.

The Bank of France advanced its discount rate from 3 to 4 per cent. because its reserves against deposits and notes fell a fraction below 60 per cent. Today its reserves are above that figure.

Germany's great bank advanced its discount rate from 4½ per cent. to 5, and then to 6 per cent., although its reserve of cash against notes, fixed by law at 33½ per cent., was well above 45 per cent.

Instead of signifying a shortage of cash, these actions on the part of the great central banks of Europe merely showed an abundance of caution, in the face of war which might create political complications involving all Europe. It was their business to exercise what may be regarded an excess of caution in the circumstances, to warn the speculative elements against over-commitments and assure general business conservatism. Firmly opposed to wars, the banking powers gave notice to the diplomatic representatives of the governments that they would make the cost of strife so great, that their attitude influenced negotiations so as to restrain the spread of the conflict, and made for peace.

The reserves of the leading European banks are actually far from a point that might raise apprehension, and with the restoration of peace, which will be accelerated by the attitude of the banks, there will be found ample means for financing all reasonable enterprises, including the covering of the cost of the war.

The improvement in the prospects for European peace has already influenced foreign banks to permit us to draw gold, which had been practically prohibited so long as the situation presented acute con-

ditions. Speculative buying of our securities by foreigners has already been resumed in some measure, indicating relief from the tension which caused the selling movement. Our trade balance is going to show up for the year not less than \$500,000,000.

Less concrete but equally important evidence of the encouraging outlook for funds for future financing is to be found in the fact that there has been no diminution of the earning power of existing investments, either here or abroad. While a few of the great corporate enterprises show a falling off, there are increases of returns in others that more than counterbalance the deficiencies. Indeed there is evidence that there has been an increment in the total dividend and interest yield, which is affected only in a small ratio by the increased cost of living. It may fairly be said that the sum total of the world's investing power is today larger than in any previous year.

Reports have reached us from abroad of the increase of capital of sundry large banking institutions engaged in financing as a specialty, and repeatedly taking up underwritings of American issues; and the fresh capital has in every instance been quickly obtained at high premiums.

Reports also indicate that there is no considerable volume of "undigested" securities hanging over the markets abroad which could interfere with new flotations.

More than ever before in our history has the advantage of purchasing sound "Americans" become known to foreign investors; the high returns, in some cases nearly double the rate paid abroad, and the assurance of an open market here, have furnished the attraction.

But the probable plenitude of funds does not imply that they can be had at low rates. The average investor has become more and more sophisticated by experience, and the advance demanded in the income yield, which has prevailed for some time past, will continue; the rise in commodity prices has made this a necessity. The demand for high-grade securities will also be insistent; where this is lacking investors will look askance. The investors command the situation.

This means that any sound proposition which is certain to give a reasonable return rate, as such rates have been going lately, will find ample means waiting as soon as the year has turned, the crop-moving money flows back and the dove of peace has again settled over Europe, which is at the moment certainly indicated to be a result soon to be realized.

The sole cause for doubt lies in the possibility that the speculative element will undertake an excessive advance in share prices. We cannot "eat our cake and have it too." Unless we restrain the movement of funds into the speculative field within rational limits, there will not be sufficient left to provide for our new requirements. The banking powers should be able to provide this restraint.

There are still three weeks to pass before the turn of the year, which is always an important date, especially abroad, where settlement days are fixed by custom. The only points that show weakness at the moment are Berlin and New York. But recent legislation has given the Imperial Bank of Germany authority to expand note-issues temporarily for settlement days, so that the danger there is minimized; in New York the stock market situation needs careful handling, which it is certain to receive.

After the foregoing was written, events occurred which serve to confirm the prognostications:

American bankers have taken a \$25,000,000 Austrian loan, to be financed after January 1, showing their confidence in the near future of affairs in the money world. This loan came to us, not so much because funds were scarce abroad, but because of the political conditions there.

A persistent liquidation is in progress in the New York stock market, reducing the loans of the banks, and hence their deposit liabilities, to more conservative figures.

Berlin and New York banks are taking the bulk of the new gold arriving in London from South Africa, thus fortifying their position, but without impairing that of other banks.

Forecasting Business Conditions

By LAWRENCE CHAMBERLAIN

Author of "The Principles of Bond Investment" and "The Work of the Bond Houses"

Part I—The Purpose, the Materials, and the Method

CHAPTER III—THE MATERIALS CLASSIFIED: BANKING CONDITIONS

WE resume, in this chapter, our discussion of the materials which form the basis of judgment concerning present and future conditions.

These materials, embracing all the data used by the three most prominent systems of financial forecast, were seen to be of common acceptance, by the three, in all major particulars. In the major classification of the materials, also, there is no serious disagreement. Under whatever terms you may call them the facts for digestion come under three main heads: Banking, Investment and Business.

BANKING, INVESTMENT AND BUSINESS.

Classification is important, for it helps us to clarify ideas by grouping them—tying them in neat bundles wrapped with a title, and pigeon-holing them. Granted the three heads above, our next step is to fix relations. Most of us are not bankers (Money) or dealers or brokers in securities (Investment), but business men (Business). Business conditions, then, are the objective of the majority—not banking conditions or security conditions. Therefore, although the round of human economic activity may truly be a circle, or cycle, with no beginning and no end, nevertheless for the convenience of the majority we may assume Money or Banking conditions as a starting point in the sequence of cause and effect, followed by Investment conditions and ending with general Business as the principal objective.

This will be found to be the striking order of cause and effect as exemplified in experience.

However, it is not sufficient to consider each group of conditions as working forward through the next and upon the third. Synchronously each group, with one other, is playing upon the third; and each group is being played upon by

one other, and the third. Action and reaction are at work constantly. It is only as we are able by grouping conditions to disentangle the forces that are for the time being ascendant, that we are able to judge better than our neighbors what is going to happen in a long series of to-morrows, and profit thereby.

Cause and effect, as group plays upon group, are best called "force" and "trend," respectively. We determine the direction, and measure the probable trend of Business, by the present direction and force of Money and Investment conditions. We determine the direction and measure the probable trend of future Money conditions by the direction and force now exerted by Investment and Business conditions. Conversely, we get great help for all future studies by noting the direction of and measuring the trend of any group that has been created by the present forces of the other two groups acting on this group.

It is to be observed that the order is not Money, Business and Investment, but as given: Money, Investment, and Business. In last month's "forecast," if it may so be called, we showed the recent effect of a "downward" trend in Financial conditions on Investments (bonds) but were not able yet to show it on Business (earnings, clearings, idle cars, etc.). The downward trend in business will inevitably appear, however, unless the two other forces change.

Thus we find a new element, Time, entering into the causal order at work as given. Time is a most important factor in the study of fundamental conditions. Failure to consider it means loss. All change takes time. Financial and Investment conditions are more sensitive than Business conditions. Changes in money volume noticeably affect banks and bank credit (Finance) and securities (Investment) long before they affect labor or

manufacture or transportation (Business). Remember that half at least of the Investment group (bonds) is long term credit and half of the Banking group is short term credit. Much money is lost because men, who have made their commitments in harmony with the correct trend, get impatient, i. e., they mis-judge the time element. The time element, like the force element, can be measured. It can be estimated for present changes by the time consumed in past changes under similar conditions.

It is understood, of course, that unforeseeable "explosions" of force may occur at any moment. Their effect is usually less than the same *volume* of cause which with the aid of *time* has accumulated *momentum*. Yet on the basis of ordinary forces in the same group, and with the same volume and trend, allowance may be made for the unexpected with corresponding profit if the result is anticipated by a commitment in another group.

Thus, if the recent Balkan conflict can be considered as an unforeseeable explosion of force, from the American standpoint, the accompanying change in European money conditions can be studied (European discount rates) and their effect on American money conditions (reserves, etc.) slightly anticipated, and in turn the effect of monetary conditions on security prices (bonds and stocks) largely anticipated. If now we know the time consumed, and the degree of effect that similar money and security conditions usually have upon business, we can form some estimate of what is ahead of us in business, *and when—unless the forces (Banking and Securities) change.*

THE FIRST GROUP: BANKING CONDITIONS.

"Banking" is the catchword chosen to designate the first group. "Money," we shall presently show, is not sufficiently comprehensive, for it leaves out credit. "Finance," on the other hand, is too comprehensive, for it includes investments.

The natural question, then, is: Why put Money and Credit into the first group and segregate Investments to a second group, by itself. The answer lies in the factor we have just spoken of: Time. These groupings are not arbitrarily made on the basis of *what ought to be*, as suggested by logic, or common sense, or

economic theory. Not at all! These groupings are the necessary arrangement *demanded by the facts*. The theory is made to fit the facts.

Let it not be forgotten, then, for one moment, from this time forward, that the art of forecasting business conditions—at least as described in these pages—is founded on a science of bed-rock facts, most of which are reducible to figures which tell a straightforward story *once you learn how to use them.*

Now from a study of the facts (in the form of figures) we learn that credit conditions—short term credit—and money conditions are so closely interrelated that it is hard to say which starts and which follows any given trend. That this is logic and common sense, as well, is merely corroborative. If logic and common sense didn't fit the facts, they would have to go by the board in this study.

But Investment (represented for convenience and other reasons by bonds and stocks), although affecting and being affected more quickly than General Business by money and credit, is nevertheless at sufficient distance in point of time to require separate grouping. We shall prove all these statements in the proper places.

Let us see now where we stand in the classification:

Conditions	Banking	Money
	Investment (long term credit)	Credit (short term)

Business

Before going any further with Investment and Business, let us see what are the essential facts to know concerning Money and Credit. Since the financial world—both continents—is now on a gold basis we can well afford to neglect silver and the minor metals and consider the basic unit, gold. Let us remind ourselves again that the fewer the facts we have to know, the surer and clearer will be the conclusions we draw from them.

The supply of gold throughout the world has had and will have a very important part to play in the evolution of the world's economic life. I have endeavored to trace the extent of its influence on security prices in Chapter XXXIX of *The Principles of Bond Investment*. It is obvious that we can obtain only approximately authentic and

regular reports of this stock because there is no world monetary commission to regulate the basis of inquiry and estimate. The relation of this total world stock to current conditions in our own country must of necessity be deep-rooted, but not sensitively related to our minor changes in fiscal health.

The supply of gold in the United States, however, is at no such remove, but concerns us at all times and at every point. It is and always must be the very foundation of commercial welfare, as long as gold is accepted as the ultimate standard of value. We cannot give too much thought to our immediate available gold supply and to the possibilities of its depletion or augmentation from within, as by loan from, or withdrawal by the treasury, or from without by export or import.

Help from the United States treasury by deposit of gold in the banks of central reserve cities is given more attention than it deserves. The total stock of gold money in the United States averages now, let us say, \$1,900,000,000. There is at present in the Treasury only \$91,000,000 of available gold. Of this it is evident that not more than \$50,000,000 could be loaned with safety. Fifty Million dollars would increase the total gold money supply, therefore the total money supply, only 2 6/10 per cent.

The banks do not want the money because it would merely lower the price of the commodity they sell; credit; and if demanded back before the credit strain was lessened they might plunge the country and themselves into serious difficulty by calling loans. Only when the money is loaned them in a panic are they sure of being able to return it at a price less than they paid for it, for after a panic the strain on credit relaxes through liquidation.

It is not desirable that the people should receive it through the banks as relief except in crises, because at any other time the additional help merely permits a further extension of credit and tends to accentuate the trouble it was planned to relieve. At a crisis, however, the money does not accentuate but alleviates the trouble.

The Government obtains no advantage except the slight interest charged for the

use of the money, and on the other hand weakens its credit, that is, the confidence of the people in its ability to redeem paper money that is not secured by deposit of specific bullion. On all these counts it is not surprising that the Government is on record as opposed to arbitrary aid of banking conditions except as a last resort.

Therefore prospective change in the gold supply—so far as any substantial help or hindrance is concerned—must come from abroad. We are interested in the available foreign supply. London is banker to the world. The price we have to pay for gold from London is the best *single* index of our ability to borrow gold from the world. This price is the rate of Sight Sterling Exchange at New York, or the value of one pound sterling in our money.

But New York is banker to the United States, and the ability of this city to draw on its own resources of the basic metal, and the ability of the rest of the country, depends on the excess of the metal over the amount the banks are required by law to maintain in vaults as reserves. So the best single index of our own immediate resources is the amount of reserves at New York.

But all money is not based directly on fundamental gold, or even silver bullion. In the United States we have, apart from approximately \$1,500,000,000 Federal certificates and notes directly secured by deposit of coin and bullion, something in the neighborhood of \$350,000,000 notes not so secured, against which there is, as indirect security, a reserve fund of only \$150,000,000. The difference between these two figures represents what is esteemed to be a margin of "fiat" credit—if we may coin the phrase—not too wide for safety. The margin in Cleveland's first administration was wider than this: the reserve fund was then only \$100,000,000, and it was thought expedient to support the national currency credit with more real money by increasing this amount 50 per cent.

It is necessary, therefore, in studying money conditions, to consider not only gold but the total money supply in the United States, or particularly that part of it which is in circulation.

Only after observation and experience

can we judge the relative importance to business conditions of gold proper and money *in toto*.

The Money aspect of Banking Conditions can now be classified as follows:

Money	Gold.....	World's Supply of Gold Money. United States Supply of Gold Money. Sight Sterling Exchange at New York. Reserves at New York.
	All Money	Total money supply in the United States. Total money in circulation in the United States.

Credit (short term credit we are now speaking of) is secondary to money but based on it. The medium of commercial credit is bank loans and discounts. When a loan is obtained of a bank the credit thus acquired customarily becomes a deposit at the bank subject to check. The loan is a commercial debit and the deposit a commercial credit. When the debits bear a high ratio to the credits banking conditions are strained. When they bear a low ratio banking conditions are sound. Since about 95 per cent. of the country's business is done by check, the Ratio of Loans to Deposits is the very best index of the *current* condition of commercial credit.*

The credit situation of the country at large, at any one time, is by no means the same as the credit situation at its monetary center, New York. At present, for instance, the credit position of the West and South is remarkably good—in places without precedent. Texas banks in this late fall season are buying commercial paper rather than borrowing from New York, simply because of wonderful crops. Banks in the Northeast are loaned to the limit, and week before last the surplus reserve of the New York banks was below legal requirements.**

It is very desirable, therefore, to know the credit condition of both the country at large and of its monetary center in particular. On this account we examine the indexes of both groups.

Interest rates for short time credit are corroborative testimony to the bank

*Note—When loans exceed deposits the balance is a drawing on bank capital and surplus.

**Note—Reserves are brought up to requirements by refusal to renew loans, thereby lowering deposits for the legal requirement is cash in certain ratio to deposits—which are bank liabilities. Failure to renew loans results in an increased interest rate, which in turn tends to attract new money if any is available at the increased price.

statements. Since time enters into all loan contracts it is often of advantage to know what sort of future credit conditions are expected and anticipated by banks, and therefore helped into being.

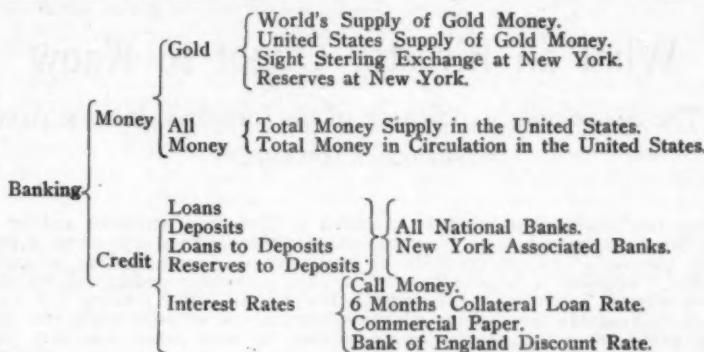
The indexes for these expected conditions are furnished by current rates for paper of the given duration. It is a nice question how many of these different lengths and kinds of credit contracts it is worth while to study. On the basis of experience (not theory) we may decide to choose call money, 6 months money, and commercial paper. For comparison with our own conditions and *also* to determine the possibility of relief from abroad, we note the minimum rates of the great national discount banks of Europe. Those generally quoted are the Banks of England, France, Germany, Belgium, Holland, Austria and Denmark. For the same reason that we quote sterling exchange we are more interested in the discount rate of the Bank of England than of any other foreign institution.

The importance of the foreign discount rate is best explained by a simple statement of the process of drawing finance bills. The first step is an arrangement with your foreign banker abroad (say London) to accept the bills. The usual commission is $\frac{1}{8}$ per cent. Suppose demand exchange (checks) is selling at 4.88. Suppose the London discount rate is 3 per cent. and the New York rate 4 per cent. You are drawing in July 90-day paper. You send it abroad. $\frac{1}{8}$ per cent. is deducted for "acceptance" by your foreign banker and $1/20$ per cent. for the stamp tax. When the bill is sold, there will be deducted 3 per cent. for 93 days (3 days' grace). The remainder, less trifling incidental expenses, will be your credit balance at the bank that took the acceptance. Simultaneously with the issuance of the bill you can proceed to sell, say at New York, your sight drafts to people who want demand exchange at 4.88. This transfers your balance back to New York.

Suppose that it is possible to cover by buying sight bills (checks) for 90-day delivery at 4.86—for instance to cotton shippers against October shipments. The October rate of exchange is likely to be higher, owing to seasonal demands, and the shipper may be glad to avail himself of July rates. In this case what you have gained by knowledge of the London and New York discount rates is 1 per cent. in discount difference (interest) and 20

"points" (.20) in exchange. These two profits reduce the carrying charge or interest to about $2\frac{1}{2}$ per cent. This process is foreign exchange and in part explains the effect in this country of a change in discount rate abroad.

With this explanation of the minor groups that determine Banking Conditions, we are prepared to classify in full this first of the three major groups of Banking, Investment and Business.



SURVEY OF CONDITIONS.

The confirmation of last month's forecast is so quick and emphatic as almost to discount one. To be so quickly and so distinctly verified leaves one open to the charge of being lucky. Luck is harder to bear than error. It warps judgment more. Nevertheless, one must admit, as stated in the article, that a survey of conditions was then most timely, because these conditions had become almost impossible in their contradictions—money against speculative and business activity—also because the majority of those who were not studying conditions intelligently held distinctly wrong impressions of what should have been, and was, before them.

Last month's comments were made for the most part on the basis of figures available during the week November 1 to 8.

The banking group now is in a situation even slightly less satisfactory than then.

European Discount Rates:

	Nov. 6.	Dec. 12.
England	5%	5%
France	3½%	4%
Germany	5%	6%
Belgium	5%	5%

Loans. All New York Banks and Trust Companies:

Nov. 1, 1912	\$2,515,000,000
Dec. 6, 1912	2,443,000,000

Loans. New York Associated Banks:

Nov. 1, 1912	\$1,328,000,000
Dec. 6, 1912	1,287,000,000

Deposits. New York Associated Banks:
Nov. 1, 1912 \$1,317,000,000
Dec. 6, 1912 1,255,000,000

The banking influence continues to be reflected in short term credits:

Nov. 1, Dec. 6,
1912. 1912.

Ratio of Loans to Deposits, New York Associated Banks	100.86%	102.55%
Commercial Paper	6.00%	6.00%
Call Money	6.13%	8.15%

The effects of the Money group on the Investment group, accentuated in the speculative market leaders, has been as follows:

Nov. 1, Dec. 6,
1912. 1912.

Railway Bonds	98.36	97.42
Railway Stocks	122.1	120.8
Union Pacific Common	170	155 (Dec. 12)
Steel Common	75	65% (Dec. 12)

Business at last seems to feel slightly the effects of the Money and the Investment situation:

Idle Cars:

Nov. 8, 1912	51,300 shortage
Nov. 22, 1912	51,100 shortage
Nov. 30, 1912	36,401 shortage

Bank Clearings Outside New York:

Oct. 25, 1912	11.7% Above normal
Nov. 29, 1912	2.3% Above normal



What an Investor Ought to Know

X—The Scope and Significance of the Industrial Income Account

By FREDERICK LOWNHAUPT

[Under the above caption it is intended to present a series of articles treating many of the fundamental facts that are either never learned by many investors or apparently overlooked in the purchase of investments. Discriminating selection is no easy matter. Without a knowledge of the basic principles underlying the science of investment rational selection is impossible. The aim of these articles will be to give many facts in readable form—facts which in themselves are technical, but which, co-ordinated, explained and placed in proper relation to each other, are both interesting and easily understood. The subject discussed in the December issue was "The Make-Up and Significance of the Income Account."]

If the average investor is puzzled by the income account as presented by the railroads, he is well-nigh hopelessly confounded in an attempt to reconcile the majority of industrial income accounts with any definite form or standard.

There are certain accounting principles that apply to an industrial income account as well as to the income account of any other corporation, but that makes no difference to the majority of corporation managers, who present their figures in any way that happens to meet their fancy, or to serve their purpose in minimizing the amount of information disseminated for the public. It is something of an injustice to the multitude of stockholders in industrial corporations to give them the meagre information that is contained in the average industrial report. The situation is mitigated but little when they are given some complicated accounting presentation which conveys almost nothing to them in regard to what the company has accomplished over any period.

The average stockholder wants to know first how much gross business was done; that is to say, the total amount of sales. If this item were set down without any

explanation, however, there might easily arise some misunderstanding of the position of the company, for the reason that gross sales may mean several different things. In the case of an industrial like, for example, a meat packing concern or the biscuit business, where sales are quick and the money from them flows back into the company very soon, a showing of gross sales without comment is not amiss as heading the income account. In the case of an agricultural machinery manufacturing company, however, the money for these sales does not come in for some months, because so much of this machinery is sold on time payments.

From these two illustrations it can readily be seen that if gross sales were put down with any further explanation it might lead to a wrong conclusion, unless it were understood that the profits from these gross sales were to come later. Of course, it is almost a rule that profits shall be considered as having been made on sales that result in cash some months beyond. But comparatively few industrials give a clear and simple exposition of this item.

Instead of starting the income showing

with this item, in many instances the first thing given is the gross profits. It will be seen at a glance that this kind of a presentation passes over the important item of how much it costs to manufacture the goods and what proportion to the value of the gross sales the operating cost represents. This is a very interesting point and one which many investors would like to know.

Still again, other so-called income accounts begin at net profits, which means that a still larger part of the income account has been pared off before it was handed to the public. Generally speaking, when final or net profits are shown first, it means that manufacturing costs and expenses of administration, as well as fixed charges, have been all provided for before the figures were set down. But where this does not hold it means that interest or other fixed charges are to come out of the net profits before the final net profits are seen. It is out of these final net profits, of course, that dividends come.

It cannot be remembered too clearly by the investor that no two industrial corporations present their income account in the same way. The alleged income account of some companies is contained in two or three items. For instance, there is a certain company that states that profits for the year amounted to so much, interest to so much and net profits to so much. What went to bring about the item of "profits for the year" can only be conjectured.

On the other hand, there are a few corporations that give such an income table as this: Gross earnings, manufacturing costs, operating costs, reserves, expenses of administration and depreciation; then net earnings, from which comes interest, the same as in a railroad report; followed by the item of profit, out of which are paid dividends; leaving a surplus, out of which again are taken betterments and improvements; bringing us finally to the item which is to go into the "Profit and Loss" account. This profit and loss item is the final surplus which is carried to the account called "Profit and Loss," which, if it shows a credit balance or gain, causes that amount to be shown in the liability side of the balance sheet under the heading of surplus.

Probably the worst example of lack of information is the corporation that makes absolutely no income account whatever, but each year shows at the foot of the liability side of the balance sheet what the surplus was at the time the last balance sheet was issued, and then puts under this amount the surplus for the later period; stating merely that the total surplus is so much, from which dividends of so much are taken, leaving final surplus so much.

Here is absolutely no indication of what the company earned or spent, and not even how much the interest charges were for the year—although this latter figure can be worked out from other data, an operation which the average investor cannot easily perform. A few other corporations condescend to show the surplus for the previous year, add to it the income for the current year, after making various deductions along with interest; then show the reserves that come out of the income, and follow by net profits, from which come the dividends, leaving the final surplus.

Briefly, it is almost entirely a question of arrangement. It should not be so, however. Some industrial concerns take out an amount to represent depreciation of the plant near the top of the income account, so that it shows as having been deducted before the net profits are shown; some others take it out at the bottom of the accounts after dividends; and some do not take it out at all, but give the figures ex-depreciation, as it were.

There are at least a dozen items that ought to show up in every industrial income account, and they ought to appear in columnar form for the benefit of the investor who cannot wrestle with a profit and loss account, a surplus account, and the like. From an accounting standpoint it is undoubtedly correct to present the figures for a year's operations tangled up in these accounts, but the average investor does not understand these things well enough to enable him to give each item its proper value and place, or, to use a popular phrase, "unscramble the accounts," and make a tabular presentation that can be readily understood.

If corporation managers gave such a column, letting the items follow in some order that would appear logical to the

layman, there would be a simplicity to these statements that would make it a pleasure to read and study them. At present, however, industrial income accounts and presentations of results of operations of these companies are notable chiefly for what they do not say.

It may be well to mention one striking example of the complexity of presentation of a report of this type of corporation. Whereas the logical and usual income account finishes with the item called final or profit and loss surplus, which is carried to the surplus account, this particular corporation begins its presentation by giving a rather full profit and loss statement for the year, charging into the

account various debit and credit items, and taking the balance for its first item in an income account. Against this item are put interest and other charges, along with all dividend disbursements, and what is left is a balance carried to surplus account.

This surplus account is then worked out in such a way that it is practically impossible for anyone except an accountant to understand the relation between its figures and the figures shown in the balance sheet, making altogether a most difficult if not impossible presentation for the untrained investor to grasp.

(To be continued.)

When Will Bonds Become Really Popular Again?

Something of a Prophecy for the Answer

FOR longer than two years this question has been asked time and time again. With the tremendous amount of money available for investment every year in this country it is inconceivable but that investment bonds should be perennially popular. Many millions of dollars of this class of security are issued every year, whether that year be good or bad, and it is a patent fact that they are always bought. In the dullest moments of the bond market there is always some buying. There must necessarily be. Vast amounts of bonds must be purchased right along for trust funds, estates, by fiduciary and eleemosynary institutions and others. In this there is compulsion, which of course keeps a steady demand for the higher grade of bonds and oftentimes runs heavily into medium character securities. All this is obviously helpful and keeps the bond market in an appearance of health, but it does not show that the bonds are really popular.

There are two great divisions of the security purchasing public—the large army of individuals, and the broad group of institutions which annually takes

many millions of securities, yet not enough to match the totals absorbed by the individual buyers. Among the institutions there may never be said to be any such thing as a popular demand for bonds. They buy bonds, of course, all the time, in greater or lesser amounts, and meet their needs with all due regard to the various conditions affecting their business. On the other hand, there is sometimes the suggestion of a wave of popularity for bonds among private investors and a decided leaning toward other securities at other times.

In the last four years we have had two very pointed illustrations of this fact. Four years ago we had the tremendous issues of short time notes, which were intensely popular among both institutions and private investors. Over the past three years we have had the astonishing voracity of the investing public for the seven per cent. preferred stock issue.

It would take more than a few words to attempt to explain the underlying reasons for the enormous issues of these classes of securities. We cannot altogether explain the conditions on the basis

of the price of capital, for we have had periods of very cheap money over the past four years and comparatively little of the extreme tense and high money conditions. We are compelled to come back to the old foundational fact of supply and demand. That is to say, the popular demand for the various types of investments was the cause that created the effects—the heavy issue of short term, high yield notes for the earlier period, and the large amounts of preferred stocks over the past three years.

In fact there seems to have occurred a movement somewhat of the nature of a cycle in investment market history, in that the years from say 1904 to the end of 1906 brought strong demand for bonds, especially those of the better grades, and consequently lifted prices up to their high points (for it was in the latter part of 1905—about November—that the top of the bond market was reached) while the years following up to the end of 1908 poured out great volumes of short term notes, followed from that time until this by the deluge of preferred stocks yielding in nearly every case 7 per cent.

Now it is evident that there has been a movement of this character away from the low yield toward the very highest income that is possible without positive danger. When people were buying bonds vigorously in the first period mentioned they were content generally with something under 5 per cent. A sprinkling of 5 per cent. or higher yield paper was of course frequently taken to help along the average income. Then the movement brought the demand for 6 per cent. income or thereabouts. From that figure it soared another 1 per cent. or more to the 7 per cent. yield and higher, so that now after seven years from the top of the bond market we look backward on these periodicities of investment that are interesting for what they suggest may be ahead.

In looking backward over these seven years to the Fall of 1905, when the crest of the last bond-buying wave was reached, we note that the best years of bond absorption just previous to the climax were years of accumulating prosperity. They were also the years just following a period of depression around

1903. They were the years when people were saving money and turning it into fixed investments of steady return. They were years, however, without that poignant cry of the hour about the high cost of living. They were also years that were not following a long and mad scramble for 7 per cent. The people that bought bonds then may expect to get their incomes right along. The people that bought short term notes a little later got their 6 per cent. and many of them have had their principal returned during the past few months. The people who bought the four or five hundred millions of preferred stocks during the past three years may get their money out of their investment if they so choose, but only by selling to someone else. The question arises as to how many of these people will want to sell at the same time.

Now it will be noted that the good bond market of eight years ago was due to the same causes that operated similarly just before 1900, that is the accumulation of capital and its normal placement in substantial bonds of a low income. Right conditions for another good bond market existed in 1909 and 1910, and without the cry of the high cost of living we should have had one, possibly not as strong as that of 1905, but nevertheless more substantial than occurred. The public, however, had had a taste of 6 per cent. and wanted more. The preferred stock yielding 7 per cent. was tried (and to the everlasting good of many corporations), and succeeded beyond all expectations.

For four years now we have seen the market for high grade bonds steadily growing weaker and weaker under declining prices. The antithesis of this has been present during the same years in the growing popularity of the high yield preferred stock. That there has been a popularity for this type of security cannot be gainsaid, for it is the testimony of more than one bond salesman that he could sell preferred stocks five times to one successful effort to dispose of good bonds.

It is not at all unreasonable to believe that there is in the setting of conditions at this moment the germ of a new and good bond market—not for the immediate future, but after some things have

happened. If history repeats itself accurately we shall have our new bond market after we have had another depression. But this is a long and slow process, and may not occur in its worst stages for some time, especially as the tide of prosperity seems to be with us.

History will repeat itself in that we shall have a long slide in the prices of stocks. Whether that has begun or not we cannot tell. Whether it will begin just a little before or just a little after the present upward movement in conditions has spent its force cannot be foretold. But it is coming, as everyone knows who is at all familiar with the course of the financial markets.

As we have said, just before the last large bond market we had not had a great wave of preferred stock buying, hence the buying of funded securities at that time may be reasonably attributed to the larger cause of the accumulation of capital than to any other. Many of the people who suffered in the last great slide in the stock market were not bond buyers at all. Probably most of the people who participated in the ensuing bond market had nothing to do with the stock market and did not buy for any other reason than the one mentioned above—

namely, the accumulation of funds in their hands.

It is in a sense a prophecy, but one which it will be observed is based upon sound reason, to say that the next great bond market or popular wave of bond buying will have in it another factor that previous markets had not. This will be the rankling of losses in stocks, if not actual, at least on paper. That is to say the next great decline in the stock market, which of course will be the precursor of the next great recession in business, will carry with it the preferred stocks of many industrial corporations, if not as far at least quite as completely as the common stocks. It cannot fail to do so, however strong the earning power be back of these stocks. The best stocks go down in a bad market, notwithstanding the fact that they may be paying their dividends right along.

With large declines in all stocks after a panic or semi-panic, and the beginnings of new accumulation of capital among investors immediately after their fright and discouragement in stock buying, there will have been laid the foundations for a movement in bonds that may probably be termed popular in a juster sense than on many previous occasions.

Bond Market Topics

The Break Up of the Harriman System.

There were as many phases of interest to the bond men as to the holders of the stocks of the Harriman Pacifics in the recent decision of the Supreme Court that there must be a separation of the two Harriman properties. Those interested in the stocks of the corporations discussed the question from the angle of the prospective distribution of assets and what stockholders of the Union Pacific might expect to get in this operation.

The bond men saw it from a similar yet different point of view. They also immediately started to figure whether there was a profit to be had as a result of the situation. In this case, just as in the case of the American Tobacco Company, there immediately sprung up a lively speculation in the bonds affected. It will be recalled that immediately the courts ruled against the Tobacco company a tremendous speculation arose in the com-

pany's bonds. They had alternate pronounced rises and falls, the guess being whether the bonds would be paid off at par.

In the present case of the railroad companies almost a similar question arose: Whether the Southern Pacific Collateral Trust bonds which have under them the stock of the Central Pacific which is the western end of the Union Pacific system would be retired at par. A quick trader or the one who anticipated the court decision in taking a chance on purchasing a large block of these bonds gathered a handsome profit, for the bonds ranged over seven points during the week of the decision.

There may be some rapid ups and downs in the quotations for these bonds before the final settlement of the whole question. It may be said generally that past experience has proven that hasty conclusions are not always correct and that bonds affected like those mentioned are not hastily paid off in cash in the readjustment that occurs.

Situation in Harriman Lines and Others.

Some of the bond men who believe they are wise are going over the list of railroad bonds hunting for something else that may be affected sooner or later by the recent court decision. It has been a rather freely discussed question as to how much this case bears on the railroad situation generally. Some people feel that if this interpretation of the relation between the Union Pacific and Southern Pacific roads is to be carried to its extremity some of the other railroad systems of the country will be disturbed. There is no feeling that the disturbance would work out an actual loss to bond holders. The only question arises as to where the lightning will hit next. Some of the alert bond traders want to be near the spot. It is likely that a similar situation in another system might affect some collateral trust issue most so that this type of security throughout the list is likely to receive a little more scrutiny from now on.

Present Vulnerability of High Grade Bonds.

A quotation below par several times within a short time for a prominent high grade bond that ordinarily sells above that figure might be considered by a casual observer as an evidence of inherent weakness. One unfamiliar with the situation around this bond might be apprehensive lest there were some hidden reason for the inability of the security to maintain its wonted position.

The trained observer, however, appreciates the fact that the sagging quotation is not directly an inherent defect, but may be the product of temporary circumstances. New York City 4½s fit this description. Over the past few weeks they have sold down below their rightful place, at par at least, time and time again. New York City bonds certainly are a premier security, yet they feel the weight of investment depression among the first. Their high class does not save them from this. The reason is that tremendous amounts are held in the great money centers where the bulk of the selling is done and these bonds are among the first to be sold down (because they are so easily sold) when money is wanted rather than securities. Their market position therefore leaves them vulnerable and sensitive to the money situation. Their conspicuousness in the market brings forth some comment when they sell off a little, yet there are other issues of their class no less affected.

Bonds That Are Showing Big Yields.

Now that the security market in all its

branches has declined in such marked fashion the bond market observers are pointing to some rather attractive good bonds which show a handsome return on the money invested. Scanning the list of securities on the board there may be seen several issues that yield almost as much as many good common stocks and more than some preferred stocks.

One of the most striking examples of these so called semi-speculative bonds yields about 6.75 per cent. on the present price. It is an income bond, to be sure, but the uncertainty of interest payment is getting practically further away every month, as the railroad earns a very comfortable margin over its interest charges. Last year the interest on these bonds was more than one and three-quarters times earned. In 1911 the margin was even larger. There are of course some prior mortgages which may be increased, but the operations of the line give evidence that the interest on all bonds is very likely to be earned right along.

In the buying of this kind of security lies one of the fine points of the live bond trader's operations and the opportunities of making handsome profits. Virtually such bonds stand as a preferred stock. Actually they are of course called bonds and are more of this type than of stock, for the reason that the management usually makes a strong effort to meet the interest even under difficult circumstances although under similar circumstances it might quickly pass a dividend.

How Much Does the Stock Market Frighten or Assure Security Buyers?

Every big break in the stock market such as we had recently has its secondary effect in the security markets. The bond men had renewed evidence of that fact in the last crash. People do get frightened by the tumbling of stocks and they do get some measure of assurance from a strong and healthy tone in the stock market. Some are frightened too much, however. A great many people fail to grasp the fact that the stock market is highly volatile and acts in response to many other considerations than investment or intrinsic worth which are the governing considerations in the investment market.

The action of the stock market is of course an indicator, but does not always in a decline mean that bonds are to be badly affected and that they are to be worth less. There are a number of reasons that the intelligent bond man can advance to show this to investors. To use them with the greatest effectiveness is what they try to do in such times as occurred recently.



The Bond Buyer's Guide

IN the following table are arranged in order of yield the principal active issues of bonds listed on the New York Stock Exchange, the income being figured at the latest available selling price for lots of 20 bonds or more. They are divided into groups, according to the grade and character of the bonds.

This table will appear monthly, and will prove invaluable to bond buyers, as well as to brokers and to all others who are called upon to select or recommend investments. It is presented for purposes of comparison only, and mention of a bond issue is not to be construed as a recommendation. Our object is merely to show the relative yield of different bonds of each of the several classes.

(1) High Grade mortgage bonds, many of which are legal investments for New York State Savings Banks.

Description.	Due.	Interest Period.	Price. Dec. 13	Yield.
Chic., Rock Is. & Pac., ref. g. 4s.....	Apl., 1934	A.—O.	86½	5.03
Ore. Short Line, guar. ref. 4s.....	D., 1929	J.—D.	91	4.80
B. & O., P. L. E. & W. Va Sys., ref. 4s.....	N., 1941	M.—N.	88½	4.74
Erie, 1st con g. 4s prior.....	Ja., 1996	J.—J.	85¾	4.68
Wabash, 1st g. 5s.....	My., 1939	M.—N.	105¾	4.62
Balt. & Ohio, Southw. Div., 1st g. 3½s.....	Jl., 1925	J.—J.	89½	4.60
Colorado & Sou., 1st g. 4s.....	F., 1929	F.—A.	93¼	4.59
Central of Ga., cons. g. 5s.....	N., 1945	M.—N.	107½	4.58
Ches. & Ohio, gen. g. 4½s.....	Mch., 1992	M.—S.	99¾	4.53
Wisc. Cent., 50-yr. 1st gen. 4s.....	Jl., 1949	J.—J.	91½	4.45
Balt. & Ohio, prior 3½s.....	Jl., 1925	J.—J.	91	4.45
Un. Pac., Ore. Ry & Nav. con. g. 4s.....	Je., 1946	J.—D.	92½	4.42
Oregon-Wash., 1st & ref. 4s.....	Ja., 1961	J.—J.	92	4.40
Chic. & N. W., Mil. Spar. & N. W., 1st gu. 4s.	Mch., 1947	M.—S.	93½	4.37
So. Pac. R. R., 1st ref. 4s.....	Ja., 1955	J.—J.	93½	4.36
Chic., Mil. & Puget Sd., 1st gu. 4s.....	Ja., 1949	J.—J.	93½	4.35
Nor. Pac. prior lien g. 3s.....	Ja., 2047	Qu.—F.	68½	4.33
Chic., B. & Q., Ill. Div., 3½s.....	Jl., 1949	J.—J.	85	4.32
Illinois Central, 1st ref. 4s.....	N., 1955	M.—N.	94½	4.30
Cent. Pac., 1st ref. gu. g. 4s.....	Ag., 1949	F.—A.	94½	4.28
Atl. Coast Line, 1st g. 4s.....	Je., 1952	M.—S.	95¼	4.25
Chic., B. & Q., gen. 4s.....	Mch., 1958	M.—S.	95	4.25
Gt. Northern, 1st & ref. 4½s. Ser A.....	Jl., 1961	J.—J.	100¼	4.24
Cent. of N. J., gen. g. 5s.....	Jl., 1987	J.—J.	118½	4.20
Louisville & Nashville, uni. g. 4s.....	Jl., 1940	J.—J.	97	4.19
Nor. & West. Ry., 1st cons. g. 4s.....	O., 1996	A.—O.	96½	4.17
Reading Co., gen. g. 4s.....	Ja., 1997	J.—J.	96¼	4.16
Atch., Top. & S. Fe., gen. g. 4s.....	O., 1995	A.—O.	96¾	4.14
Balt. & Ohio Gold, 4s.....	Jl., 1948	A.—O.	97½	4.14
Del. & Hud., Alb. & Sus., conv. 3½s.....	Apl., 1946	A.—O.	88½	4.14
Kansas City Terminal, 1st 4s.....	Ja., 1960	J.—J.	97½	4.14
Del. & Hud., 1st & ref. 4s.....	My., 1943	M.—N.	97¾	4.13
Chic. & N. W., gen. 4s.....	N., 1987	M.—N.	97½	4.12
Northern Pac. prior 1. g. 4s.....	Ja., 1997	Qu.—J.	97½	4.09
N. Y. Cen. & H. R., g. 3½s.....	Jl., 1997	J.—J.	86	4.09
Union Pacific, 1st R. R. & land gr. 4s.....	Jl., 1947	J.—J.	98½	4.08

(2) Collateral trust bonds selling at prices relative to the great value of the underlying collateral.

Chic., R. I. & Pac. R. R. 4s.....	N.,	2002	M.—N.	65	6.04
Gt. Nor., C. B. & Q. coll. tr. 4s.....	JL,	1921	J.—J.	95½	4.70
N. Y. C. & H. R., Lake Shore, coll. g. 3½s..	F.,	1998	F.—A.	78¼	4.50
So. Pac. Co., g. 4s (Cent. Pac. coll.).....	Ag.,	1949	J.—D.	91½	4.48
Atlantic Coast Line, L. & N., coll. g. 4s.....	O.,	1952	M.—N.	91¼	4.47

(3) Convertible bonds having no mortgage lien whose quotations are governed largely by the price changes of the stock into which they are convertible.

Ches. & Ohio, conv. 4½s.....	F.,	1930	F.—A.	92½	5.17
Del. & Hud., 10-yr. conv. deb. 4s.....	Je.,	1916	J.—D.	96¼	5.03
Erie, 50-yr. conv. 4s. Ser. A.....	Apl.,	1953	A.—O.	82½	5.01
Sou. Pac. Co., 20-yr. conv. 4s.....	Je.,	1929	M.—S.	92½	4.69
N. Y., N. H. & H., conv. deb. 6s.....	Ja.,	1948	J.—J.	123½	4.66
Union Pacific, 20-yr. conv. 4s.....	JL,	1927	J.—J.	96½	4.29
Atch., Top. & S. Fe., conv. 4s (issue 1910) ..	Je.,	1960	J.—D.	102¾	3.87
Atch., Top. & S. Fe., 10-yr. conv. g. 5s.....	Je.,	1917	J.—D.	106	3.55
Norf. & West. Ry., 10-25-yr. com. 4s.....	Je.,	1932	J.—D.	112½	3.16

(4) Debenture bonds most all of which are selling on high level because of the good general credit of the respective companies.

Chic., R. I. & Pac., 20-yr. deb. 5s.....	JL,	1932	J.—J.	89½	5.89
Chic., Mil. & St. P. 25-yr. deb. 4s.....	JL,	1934	J.—J.	90½	4.70
Lake Shore, deb. g. 4s.....	S.,	1928	M.—S.	92½	4.69
Lake Shore, 25-yr. g. 4s.....	My.,	1931	M.—N.	92½	4.63
N. Y. Cen. & H. R. deb. g. 4s.....	My.,	1934	M.—N.	91½	4.65

(5) Semi-investment bonds, many of which are general mortgages, often classified as "business man's" investments. Income yield is reasonably definite index of relative worth.

St. L. & S. F. R. R., gen. 15-20-yr. 5s.....	My.,	1927	M.—N.	83	6.66
Seaboard Air Line, adj. 5s.....	O.,	1949	F.—A.	74¾	6.53
Wabash, 1st ref. & ext. g. 4s.....	JL,	1956	J.—J.	65	6.21
Missouri Pac., 40-yr. g. loan 4s.....	Mch.,	1945	M.—S.	71	5.98
Missouri Pac., 1st & ref. conv. 5s.....	S.,	1959	M.—S.	86½	5.83
St. L., Ir. M. & S. uni. & ref. g. 4s.....	JL,	1929	J.—J.	81¼	5.77
St. L. & S. F., K. C. Ft. S. & M. Ry ref. g. 4s.	O.,	1936	A.—O.	77½	5.75
N. O. Mob. & Chic. 1st ref. 5s.....	Ja.,	1960	J.—J.	87½	5.73
St. L. & S. F. R. R. ref. g. 4s.....	JL,	1951	J.—J.	75	5.58
Mo., Kans. & Tex., gen. sink. fund 4½s.....	Ja.,	1936	J.—J.	86½	5.55
Erie, 1st cons. gen. lien g. 4s.....	Ja.,	1996	J.—J.	74	5.43
Chic. Gt. Western 1st 4s.....	S.,	1959	M.—S.	76	5.42
St. L. S. W. cons. g. 4s.....	Je.,	1932	J.—D.	80½	5.32
Southern, devel. & gen. 4s, Ser. A.....	Ap.,	1956	A.—O.	78	5.30
Missouri Pac. 1st cons. g. 6s.....	N.,	1920	M.—N.	105½	5.11
Kansas City Sou., ref. & imp. 5s.....	Ap.,	1950	J.—J.	97¾	5.04
Colorado & Sou. ref. & ext. 4½s.....	My.,	1935	M.—N.	93½	4.98
West. Maryland, 1st g. 4s.....	O.,	1952	A.—O.	85	4.86
N. Y., W'ches. & B. 1st, Ser. 1, 4½s.....	JL,	1946	J.—J.	95½	4.77
Southern 1st cons. g. 5s.....	JL,	1994	J.—J.	106½	4.71

PUBLIC UTILITIES

Electric Railway Securities

By SCHUYLER R. SCHAFF, Consulting Engineer

TWENTY years ago, the flotation of Electric Railway securities was carried on under considerable difficulties. The public was unaccustomed to treat them as an investment. As the original use of the property served merely as a means of transportation between a city and an amusement park, they were stamped in the class of securities that represent fly-by-night amusements. Gradually their real worth came to be recognized and the fact realized that for passenger transportation over comparatively short distances an electric system cannot be equaled. Their most useful sphere is in large communities as street car lines. At the present time there is not a city in the United States of over 20,000 inhabitants without a street car system.

The first electric lines were named trolleys. It seems that the little wheel which runs along the overhead wire and collects electricity for the operation of cars was designed by a Frenchman who named it the "trolley." Americanized into trolley it served as a title until the advent of city service, when we now hear "street car" used for every kind of electric surface line. There has sprung up recently the title of "electric railway," which seems to be more in keeping with the growth of electric systems and more fully expresses their modern application as interurban carriers.

The original use of electric railways was to serve chiefly as a means of transportation to carry the public out to an amusement park. They rarely had the dignity of a separate issue of securities to cover their cost. Instead they were included as a part of the

amusement project in the same way as a scenic railway. As a result of this origin, many a company now extending over the streets of a considerable city owed its beginning to a short line reaching the suburbs. A large proportion have still kept an interest in parks. Among them are the Jacksonville Electric Company of Florida, the Manchester Street Railway of New Hampshire and the Montgomery Traction Company of Alabama, the last of which owns three parks.

Electric railway companies can be divided into five general groups for purposes of classification and study. The first group, which will give the purest figures for railway study, deals with those railways that are complete systems in themselves and do not enter any other field. The others are those that enter the lighting field, either by electricity or by the ownership of a gas company; those that own parks; those that do not generate their own power; and finally those that are a part of some huge steam system.

The second group form an economic and distinct combination, that is a form of public utility by itself, and will be treated separately in another article.

Unfortunately the figures obtained by analyzing the financial reports of electric railways that own parks are misleading. The earnings and expenses of the park serve to adulterate railway earnings and leave little satisfaction to any one studying them as to results of railway operation. One definite fact can be obtained and that is that parks add considerably to revenue if the season happens to be good, and have the opposite effect during a bad season. Railway earnings show more

EARNINGS OF SOME TYPICAL ELECTRIC RAILWAYS.

Name of Company.	Miles of Track, Counted as Single.	Capital Authorized to Date.	Capitalization Per Mile of Single Track.	Net Earnings for Last Full Year.	Net Earnings Per Mile of Single Track.
United Traction Co., Albany, N. Y.	101	\$15,544,000	\$154,000	\$825,763	\$8,175
Springfield Street Railway Co.	175	7,214,800	41,000	577,474	3,299
Kingston Consolidated Railroad	9	1,088,000	121,000	87,824	9,756
Augusta Aiken Railway & Electric Corp.	53	5,805,000	109,000	277,083	5,227
Des Moines City Railway Co.	85	4,730,000	55,000	293,381	3,451
Portland Railroad	103	4,950,000	48,000	308,274	2,998

stability when the company is a means of transportation only.

It often happens that a large city has need of a few miles of line to reach some suburb. Generally it will prove to be an uneconomical plan to have its own electric plant to handle its small number of cars. It has the alternative of buying power from an electric light company and becoming one of the fourth group.

To take an example, suppose a fourteen-mile line was to run cars every thirty minutes to a suburb. It would require about four cars in operation and a power house adding approximately \$50,000 to the capital to be raised. We may assume the expenses for a plant of that size to be about \$11,000 annually and the interest on its cost as \$2,500. Power bought from a lighting company can be bought for a line of that size for about \$8,500 per annum. By buying its power instead of owning its generating system, a saving of \$5,000 a year can be made, with less risk of loss by strikes and fire. This is an economic method of running a system too small to make the ownership of its own plant a paying investment.

An investor should investigate whether the company he may be interested in owns its plant, and if not, it is well to see that the capitalization is reduced accordingly.

The last group mentioned—electric roads that form a part of a large steam railway system—is not within the scope of this article. They are not a public utility in the usual sense of the term, as they are primarily a part of a steam system that has been electrified.

It is pertinent to say, however, that railroads are becoming more and more to realize the convenience in using electricity for their commuting lines. The Pennsylvania and the New York Central have both spent enormous sums in electrifying all their lines within twenty-five miles of New York City.

The first group, electric railways that are a complete system in themselves and do not enter any other field, is worthy of considerable study, as these roads give an unadulterated report of railway operation. In the table herewith the first four companies are in the first group and the last two are in the third, through their ownership of parks.

An analysis of the first four systems shows that capitalization per mile of single track varies from \$150,000 to \$40,000, depending on local conditions. As a rule the capital required to build an electric system operating in a city like Albany is much larger per mile than that required for an interurban line or for a street car service of a small town. It is known in engineering circles that the actual cost of construction in a well paved city where the use of girder rails is necessary, is greater than placing a line on a country road where a 60-pound rail is laid and no pavements to tear up and then replace.

An investor would be justified in finding out the capitalization per mile of any system under his notice. Over-capitalization is an evil that has meant less dividends to many an investor. It should be borne in mind, however, that local conditions must be taken into account and an allowance made for ex-

pensive construction if necessary.

The Des Moines City Railway Company and the Portland Railroad own amusement parks which have come to them through their original franchises. The original cost of these parks was not excessive. The real estate was usually cheap owing to its lack of transit facilities. The advent of an electric railway then raised its value, which, as part of the system, itself increased the assets behind its capitalization.

The earnings of an electric railway system that is well operated may be taken as between \$9,000 and \$3,000 per mile of single track. If a line is double track it should be counted twice as long as the actual distance from end to end of its line.

As a general rule the earnings of a street car line will be in excess of those of an interurban system. Fortunately the capital required per mile for interurban construction is less than in city lines. The burden of fixed charges is less and the working capital is less. The actual percentage earned on the investment would generally be equal to any city surface line.

Capital has lately turned to the establishment of electric railways as interurban carriers. They practically take the place of steam railroads in that they are freight and express carriers. The Albany Southern is one of them. It operates from Albany to Hudson in New York State. Its location gives it a field by itself in that it takes the place of the usual steam system. It handles the total freight, express and passenger traffic of the region east of the Hudson near its line. The absence of any locomotives and the presence of a third rail are the only features that distinguish it as one of the public utilities instead of a steam railroad.

Trenton and Philadelphia are connected through the operation of the Trenton and Mercer County Traction Corporation which is a part of the Interstate Railways Company. Further examples include the Indianapolis & Eastern Railway Company and the Indianapolis & Cincinnati Traction Company. The New York State Railways Company includes not only street

car lines, but also interurban lines operating in the Mohawk Valley.

It is pertinent for the investor to know the limitations of an electric interurban line, because it has them in spite of enthusiastic prospectuses. In general an electric line is most economical over short distances. One hundred miles from end to end seems to be about the present limit for successful operation. That does not apply to street car lines, which may have as long a line as there are streets thickly built up. Passengers will seldom use an electric system over long distances if steam service is near by. In spite of the fact that a number of electric systems have car service the equal of steam railroads, the public is still accustomed to consider them as trolleys and therefore too slow and uncomfortable for a long ride.

An investor should bear in mind that competition with steam roads on long distances is seldom in favor of the electric line. The best location for interurban lines is through country thickly populated with villages and out of influence of steam railroads.

Street car lines are good and consistent payers of dividends. Interurban lines depend too much on their location to be placed in a broad classification with respect to the success of their securities. In general there should not be any competition from steam roads, especially along the center of the line. Two cities thirty or forty miles apart may be connected by both steam and electric systems and it will be found that the electric system will be paying, if its location is away from the steam road and it passes through country towns. An electric system of that length would seldom have passengers ride from end to end while it could absorb practically the whole traffic business of the country towns and villages.

Public utilities have a right to their name. As a public necessity, their earning power never decreases. They are steady earners under good management and their cost of operation is practically the same year after year. Their bonds and stocks, when once on a paying basis, are likely to stay there. Panics do not affect the earning power

of street surface lines at all and affect the freight business only of interurban lines.

Transportation is a necessity for the proper growth of a community and therefore has brought down legislation on its head. A few years ago a wave of public discontent caused stringent laws to be passed concerning the operation of transportation companies and the fares allowed, but it cannot be too strongly emphasized that the effect of these laws was chiefly in curbing steam railroads. Electric lines were restricted to a certain extent through the enforcement of transfer laws. No better proof can be given of the value of a street car franchise than the fact that the public was sufficiently interested to see that they did not have to pay too much for transportation.

The enthusiasm of baiting street car companies has gradually subsided. For instance, the Hudson & Manhattan Railway Company has recently been permitted to raise a part of its fares from five cents to seven cents. The public realized that owners of electric railway securities should have a fair return for their investment and that an electric system cannot carry a passenger five miles for five cents and show any earnings.

A franchise is a legal right to operate over any certain territory. To obtain one is a task requiring a considerable amount of adroitness. They are more difficult to obtain than electric lighting rights. An electric light company starts in one community and has that place alone to deal with. An electric railway nearly always includes some main community and either its suburbs or a number of towns. Local rivalry between country towns constitutes a stumbling block that requires an expert in diplomacy to overcome.

A village will often insist on a prominent citizen being an officer in the system before giving any rights. If several insist on the same thing a situation arises that is interesting if not unpleasant to control. The usual result would be that neither could get the office wanted; while to give it to one and not the other would be fatal. The defeated village would generally be

forced to give over the necessary privileges, but might add considerable expense by petty interference.

It seems that some politicians in small country towns spend all their time putting something in the way of a railroad. Sometimes force, sometimes the insidious machinations of a Roman senator are necessary to clear the way for the right to lay rails in some unimportant streets.

An incident occurred in the location of an electric line in Pennsylvania, which shows the adroitness required of a location engineer. The line crossed a long field of rocks that was absolutely useless for crops or anything else. A rodman that was entirely new to location work made it his special duty to tell the owner, a pretty shrewd farmer, that there was going to be a big railroad put through his property. Inquiry on the part of the location engineer afterwards brought out the fact that the land could be bought for \$1,000 per acre and at that only as a favor. The farmer admitted that it was worth only about \$1 an acre as farm land, but he said that as land to build railroads on it was a bargain at \$1,000 an acre.

The normal wage scale of the usual small town is apt to be low. Tradesmen and laborers are generally satisfied with about half as much as could be had in large cities. An electric system seems to wake them out of their lethargy. They charge an outsider as much as they can get and country politicians consider it a feat to get the best of the railway crowd.

Franchises that were obtained when electric systems were in their infancy were all perpetual. The United Traction Company has most of its lines based on perpetual rights. It is impossible to get perpetual ones now. They are practically always restricted at least to ninety-nine years and generally to about thirty years. Further, a fare restriction is inserted. City lines are required to give transfers and interurban systems must charge only a certain amount over a certain distance.

Laws covering the issue of securities are more comprehensive than formerly and safeguard the investor through the action of state public utility commis-

sions. While the public insists on the limits for fares, it gives the right to sell a public necessity, and the result is that

an electric railway system that has once proved itself can be classed as a high-grade investment.

The next article in this series will be "Combined Operation of Electric Railway and Electric Light Properties."

Public Utility Notes

Philadelphia Company.—This company has recently issued and listed on the New York Stock Exchange \$10,000,000 worth of convertible 5% coupon debentures of 1912. They are issued in \$1,000 denominations. The principal and interest are guaranteed by the New York Trust Company as trustee. They are convertible into the company's 6% cumulative preferred stock on any day after January 31, 1913, and are exchangeable par for par. The company owns the gas and the biggest part of the street railway business in Pittsburgh, Pa. Its charters, franchises and patents are carried on the books at the nominal sum of one dollar. The Philadelphia Company is a holding company of a large number of gas and railway companies, included among which are the Braddock Gas & Light Company, the Pittsburgh and Beaver Street Railway Company, Pittsburgh Railways Company, the Consolidated Traction Company, the Duquesne Light Company, and many others. The company reserves the right of redeeming these bonds at 102½ and accrued interest upon six weeks' notice.

This company has also placed on the market \$16,000,000 of its 6% cumulative preferred capital stock out of an authorized issue of \$25,000,000. Of this issue \$6,000,000 are reserved for exchange for its outstanding 5% preferred stock. The exchange will be made on a basis of 2½% premium. \$10,000,000 of this issue have been reserved for the possible conversion of the 5% convertible gold bonds. This issue does not allow any voting rights except in default of its 6% dividend, when stockholders may vote on matters of financial importance. It holds priority over the common and 5% preferred stock outstanding at present both as to principal and cumulative dividends.

United Equities Corporation.—This company has been formed to take over the interests of the United Equities Company. The authorized capital has been increased to \$5,000,000 7% preferred stock and \$5,000,000 common, of which \$4,000,000 preferred and \$3,000,000 common will now be issued. The company owns part of the American Cities Company, International Traction Company, United Gas & Electric Company and Seattle Construction & Dry Dock Company through

ownership of blocks of their common and preferred stocks. Dividends of 10% per annum were paid on all classes of stock last year and left a surplus over of about 10% on common.

American Water-Works & Guarantee Company.—The company has listed on the New York Stock Exchange \$10,000,000 of its 6% cumulative participating preferred capital stock, in shares having a par value of \$100 each. The total capitalization of the company to date is \$10,000,000 6% cumulative preferred which is being issued at present, and \$10,000,000 common capital stock. Dividends of at least 6% have been paid on the common since 1892 and in every case have left a considerable margin for surplus. The surplus for the years 1911 and 1912, in which 6% was paid on capital stock with extra dividends, was approximately \$8,000,000 and \$3,000,000 respectively. This stock is safeguarded through an agreement that none of the subsidiary companies included in the company's list can be discarded. The company owns forty subsidiaries, the largest proportion of which are water supply companies. Among the largest in their list are the City Water Company, of East St. Louis and Grant City, St. Joseph Water Company, the Western Traction Water Company and the California Idaho Company. The company either owns the whole or the control of all of its subsidiaries.

American Public Utilities Company.—This company has recently been formed and now offers a new issue of \$2,000,000 preferred stock and \$70,000 common stock. The offering is \$1,000 par value preferred and \$350 par value common stock for \$1,000 cash payable 50% at time of subscription. The company owns at the present time the Merchants Public Utilities Company and Peoples Light & Heat Company of Indianapolis, Ind., and the LaCrosse Gas & Electric Company, LaCrosse Wis. They expect to own in the future nine other properties, consisting of Elkhart Gas & Fuel Company, Elkhart, Ind.; Valparaiso Lighting Company, Valparaiso, Ind.; Utah Gas & Coke Company, Salt Lake City, Utah; Boise Gas, Light & Coke Company, Boise Idaho; Winona Gas Light & Coke Company, Winona, Minn.; Minnesota Wisconsin Power Corporation; Albion Gas Light Company, Al-

bion, Mich.; Holland City Gas Company, Holland, Mich.; and Jackson Light & Traction Company, Jackson, Miss. Capitalization outstanding is \$7,748,000 out of a total authorized capitalization of \$60,000,000. Past earnings seem to indicate that over 10% has been earned on the common stock. The issue coming out now will pay 6% on the preferred and is recallable at any dividend date at 105 plus accrued dividends. The common stock will probably pay 2% per annum. A clause permits the holders of common stock to participate in any profits accruing from additions of new properties. This issue is carried out by a Michigan house and can be bought in the open market in New York City. The Merchants Public Utilities Company and Peoples Light & Heat Company of Indianapolis, Ind., have been in competition previously to their merger by this company. A short while ago the Merchants Light & Heat Company floated an issue of \$2,250,000 worth of bonds to a New York house, intended to cover the cost of a 4,000 K. W. unit and the necessary increase of steam capacity and line extension.

Los Angeles Railway Corporation.—This company has issued the last block of its first mortgage 5% bonds. The total authorized issue is \$20,000,000. The bonds are a direct and first lien on 85 miles of track owned by the company which acts as a street railway in Los Angeles, Cal., and as an interurban electric railway covering the surrounding territory. Average net earnings for past two years, after interest on bonds, has been about \$800,000 per year, or about 75% over requirements on funded debt.

Securities Corporation General.—The company has sold the largest part of its securities to be issued through a private sale. Its securities include \$3,000,000 preferred stock and \$3,250,000 common stock out of an authorized issue of \$5,000,000 of each. This

company is formed for the purpose of buying in minority interests in various public utilities and owns blocks of stock in the Interstate Railways Company, Kenne Securities Company, Fort Wayne & Northern Indiana Traction Company and others. The object of this company is to obtain more steady and secure dividends by spreading the investment of a small investor over several holdings in different companies. It also gives a greater market for the minority interests of small companies. The preferred stock is cumulative stock with a par value of \$100 and is redeemable at 120 with any unpaid dividends at thirty days notice after three years from issue. Further, it participates in dividends evenly with the common stock up to 8%. These securities have been offered at the rate of ten shares of preferred and two of common for \$1,000 cash.

Cumberland Telephone & Telegraph Company.—This company is a subsidiary of the Southern Bell Telephone & Telegraph Co. and has recently issued \$15,000,000 of 5% general mortgage bonds in denominations of \$1,000 and \$500. These bonds are a first lien on all the property of the company with the exception of an issue of \$1,000,000. All but \$1,240,000 of this issue are for the purpose of retiring a previous bond issue. The \$1,240,000 is for extensions and improvements.

General Electric Company.—The General Electric Company has issued through the New York Stock Exchange \$23,297,000 capital stock with a par value of \$100. The capital stock of the company is now \$105,000,000. This issue is caused by an authorized stock dividend of 30% of the original capital and does not seem to be issued for improvements or betterments. The surplus, however, at the end of their fiscal year of 1912 was nearly \$33,000,000. Last year their addition to surplus amounted to nearly \$4,500,000.

Points for Investors

DON'T worry about your securities, if they are the obligations of a good company, when newspaper talk mentions the fact that earnings fell off somewhat over a short period, because there is generally what is known as a margin of safety for your bonds, and newspaper talk is likely to be written with especial reference to stockholders' interests.

Don't be carried away with a highly emphasized statement of gross earnings in connection with an offering of securities. In numerous cases it is only a partial indication that the company is doing well. It should not be forgotten that it now costs more to do more business, so that in the end the results may not be improved at all.

Don't expect to get a very illuminating opinion from one firm when the security in question is one of comparatively recent issue by another firm. There may be a difference between the opinions of the house interrogated and the house that issued the security, as to the exact value and position of the security. It almost goes without saying that unless the security were really bad an element of etiquette might enter into the situation.

An ounce of prevention is worth a ton of cure, which applies to securities very appropriately. If you are a real investor it is infinitely better to look to all the fine points of safety before you purchase than to rest in the belief that since you have a mortgage bond, the mortgage will save you in the evil day.



INVESTMENT DEPARTMENT

INVESTMENT: The placing of capital in a more or less permanent way, mainly for the income to be derived therefrom.

Investing for Profit A Review of General Principles and Practical Methods

By G. C. SELDEN

Author of "Psychology of the Stock Market," etc.

[This series of articles is intended to lay before the reader, in a brief but fairly comprehensive form, the outlines of the basic principles which must underlie all efforts to invest for profit, as distinguished from pure speculation on the one hand, and on the other hand from investment for income only. This branch of investment has been but little discussed, as most writers have turned their attention either to the field of investment for income only, or to the study of the merits of individual securities.]

VI—Buying Industrial Stocks

WE cannot apply all of the same principles to industrial stocks that we have applied to railroads, because hardly any industrials furnish the public with complete statistics as to their operations. In buying most industrials, the investor is always somewhat in the dark.

To be sure, he can form his opinion from current news reports, or from his knowledge of the activity of the business in which the company is engaged, or from deductions made from net earnings and dividends as given out in the annual reports. But this is a different thing from working on such definite statistics as are given out monthly and yearly by the railroads.

This fact need not discourage the would-be investor for profit. If there is one thing in the science of investment that needs to be emphasized more repeatedly than any other, it is that no rules can be laid down. We can only apply to every proposition the same practical business intelligence that we would apply in the management of our own personal affairs.

In fact, the title of these chapters

might almost as well be "The Application of Common Sense in Buying and Selling Securities," as "Investing for Profit." Each case must be considered on its own merits, on the facts that are available, and by whatever method is most practicable under the circumstances. That is the reason why I am to such a large extent following the plan of studying actual examples of different securities, rather than confining myself entirely to abstract principles.

The most prominent industrial company in the world is the United States Steel Corporation. How could the investor secure profits in addition to interest in buying its stocks? It will afford us a convenient and useful example.

First, what do we know about the steel business? We know—

That it has been enormously profitable, having made more millionaires than any other industry.

That its products are of a staple character, so that the consumption of them must continue and grow from decade to decade.

That stocks of raw material can be car-

ried almost indefinitely, with but little expense beyond the loss of interest on the money tied up in them.

That in times of dull business at home, steel products can be exported in large quantities at prices which will at least keep the plants in operation, though profits may be small.

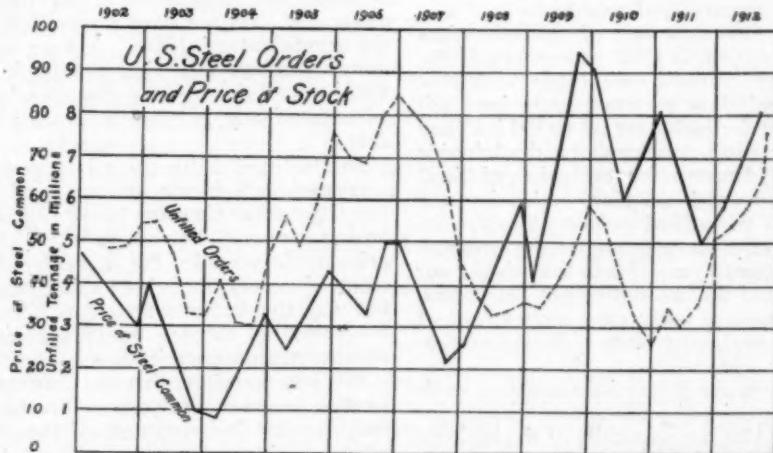
That in times of active business, profits are very large, probably larger than in almost any other line.

On the other hand, we know that the steel trade is always "a prince or a pauper," according to business conditions. Steel and iron products are used very largely in new construction of all kinds. Hence, when there is general confidence in business circles, and new construction

dustry has reached such a degree of activity that he thinks the probabilities are against further gains. He will never get top prices, but should always get a fair profit.

Of the various steel companies, the United States Steel Corporation controls nearly half the business of the country and presents to the public far more complete and accurate statistical information than any other company. Its annual reports contain about everything one could ask for. Its earnings are given out quarterly. The amount of unfilled orders on hand were also published quarterly up to June 30, 1910, but since that date they have been given out monthly.

It is easily possible to figure out the



is proceeding rapidly everywhere, the demand for steel is greater than the supply. But when new construction is checked, whether by financial stringency, political uncertainties, temporary exhaustion of capital, or for any other reason, then the demand for steel falls off very sharply and suddenly, and a considerable time may elapse before it revives.

Plainly, if the investor can buy steel stocks near the beginning of one of these periods of expanding activity, he is assured of a profit in addition to his dividends. If his purchase is made at such a time, he can sell out at his leisure, either when his stock is as high as he thinks it reasonably should be on the basis of the dividends it pays, or when the steel in-

operating ratio of this company, on the same plan as applied to railroads; but it is doubtful whether as good results could be obtained as with the railroads, on account of the sudden fluctuations in the steel business.

Moreover, we have a much better class of statistics available for this company. The unfilled orders on hand represent *future business*, and a knowledge of the future business of the company is certainly much more valuable to the investor for profit than a study of past business.

Let us examine these unfilled orders for a period of years, and see if they afford any useful indications as to the probable future movements of the price of Steel stocks. Everyone understands, of

course, that many other influences will enter into the making of the price. But the great thing, after all, with an industrial company, is getting the orders. It might reasonably be supposed that orders on hand would be so much more effective than any other considerations as to exercise a strong degree of control over the price.

In order to study the relation between unfilled orders and the price of the stocks, we must get the statistics before us in some intelligible form so that we can examine them in detail. The method here employed is that generally used by statisticians. It is very quickly understood and can be applied by any one without any special knowledge, wherever several classes of contemporary statistics are to be compared and analyzed.

The first statement of unfilled orders was given out in 1902. Therefore, in the diagram herewith, we begin with that year and allow an equal space from left to right for each year up to 1912. Then we lay out a price scale on the left side of the diagram for the price of Steel common, and another scale for the amount of unfilled orders. When completed, the diagram shows the progress from year to year of both the price of the stock and the amount of unfilled orders, permitting a fairly close comparison of the general movements of these two factors.

We use the price of the common stock because it is, of course, more directly influenced by the prosperity of the business than the preferred stock, and therefore has fluctuated more widely. The common, however, did not pay dividends throughout the entire period shown on the diagram. For about two and one-half years, 1904 to 1906, dividends were suspended; and during that time the investor for profit would naturally have selected the preferred stock, which has paid 7 per cent. regularly. The price of the preferred has followed that of the common in a broad general way, but with somewhat narrower fluctuations. It is omitted from the diagram to avoid possible confusion.

During 1902 and 1903, we see that the price of the stock moved substantially in harmony with the rise and fall of the unfilled orders. In the middle of 1904,

however, there is a further decline in orders, while the price of the stock continues generally upward. This was due to the fact that the price of the stock had been abnormally depressed in 1903 by the financial panic, and in 1904, with the return of easy money, a great part of the depression was soon recovered.

In other words, a great change in the money market caused this stock to move in some degree independent of any change in orders; but the variation is slight, and merely caused the stock to advance a little ahead of orders, since the orders rose very sharply at the end of 1904.

Throughout 1905, 1906 and 1907 the correspondence between the movements of orders and stock is really surprisingly close. In 1908, we have a repetition of the conditions of 1904. A very easy money market, following the panic of 1907, caused the stock to rise sharply in advance of any increase in unfilled orders.

In 1909 and 1910, there is a general correspondence in the movement of the two lines on the diagram, but in 1911, following the severe liquidation of 1910, the price again precedes the upward movement of orders, though in this instance but slightly, because the depression of 1910 was not severe. In 1912 again a close correspondence is shown.

We see, therefore, that the changes in unfilled orders do have a very direct connection with the movement of the price of the stock. But it is one thing to see this fact and quite another thing to take advantage of it in a practical way.

In 1904 and 1908 the investor might well have bought Steel—or almost any other stock—as soon as the panic was over and easier money conditions began to return. In 1911, he probably would not do this, because we had no real panic in 1910. If the investor had the courage and wisdom to buy in these panics, he could then be guided in part by the unfilled orders as to how long he should hold his stocks.

But let us assume temporarily that the investor has no knowledge of panics or of the money market and is depending solely on the company's unfilled orders in shaping his course. Could he, by this

extremely simple plan, get a profit in addition to his interest?

In each of the three periods of depression shown on the diagram we note the following facts:

(1) Unfilled orders, after a sharp decline, remain at a low level for about one year.

(2) During the latter part of this year the price of the stock begins to advance.

(3) After the year is over the unfilled orders also increase sharply.

(4) In both 1906 and 1909, the high price of the stock and the high record of orders came at practically the same time.

(5) The diagram gave no positive indication as to when the end of these advances was imminent, but a very sharp advance in either the price or the volume of orders would naturally have been accepted as a warning of over-extension.

If the investor based his operations on unfilled orders alone, he would naturally buy United States Steel stocks in 1904, after unfilled orders had remained at a low level for about six months, and the price had begun to show an advancing tendency. The price of the common stock was then about \$20 a share.

In 1906 the rapid advance in orders and the sharp price movement, together with the excited speculation which then existed, would be likely to convince him that such a pace could not be maintained.

Moreover, in 1906, Steel common paid only $1\frac{1}{2}$ per cent. dividends and sold at a high price of $50\frac{1}{4}$, while the preferred, paying 7 per cent., touched $113\frac{1}{4}$. These prices were evidently high for industrial stocks paying no greater dividends than those mentioned, which had sold within

three years at $8\frac{3}{8}$ and $49\frac{3}{4}$, respectively. Ordinary business prudence would counsel the investor that the period of growth for these stocks was near its culmination, and that the conservative course would be for him to dispose of them and look about for another opportunity.

Early in 1908, our investor, again applying the same principles, would buy Steel common at perhaps 40 or 45, and somewhere before the high price of $94\frac{1}{8}$ in 1909, he must certainly have concluded that his stock was high enough for its dividends and prospects, especially as unfilled orders were following but sluggishly.

In 1911, he would perhaps have bought at about 60, and would have seen his stock decline to 50 on his hands; but it has since sold above 80 in spite of the government suit, proposed tariff reduction and the general scarcity of capital.

The principal point I desire to emphasize in this connection is the general method of study suggested. There are three steps in this method:

First; a careful consideration of the circumstances surrounding the business of whatever company you are studying.

Second, a systematic examination of the statistics which portray these circumstances most clearly.

Third, the working out of a commonsense way of taking advantage of the facts brought out by your study.

Such a method would never be fast enough to suit the speculator; but it will enable the conservative investor for profit to seize many favorable opportunities.

(To be continued.)

Points for Investors

Unless you have the statements in writing, it is well generally to put the statements that security salesmen make in such form, and then have them given to you on the official letterhead of the firm and signed by the firm. Not that there is intentional misrepresentation, but salesmen sometimes have not details altogether clear in their minds.

High money rates are no indication that it is not time to buy securities. On the contrary, they generally indicate a good time to buy high grade investments, inasmuch as

many of these investments are liquidated at low prices by those who would rather loan the money than hold the bonds.

Remember that corporations generally seize the moment when they can show the very best earnings over a short period back, to do their financing. The issuing house emphasizes this statement of earnings and makes the best possible advantage of the situation to get top prices for the securities. Often the securities ought to be offered to investors considerably below the price set.

What Has Doubled the Price of Standard Oil in a Year?

By EDGAR D. POUCH

(Continued from December Issue)

IT was common report that when the dissolution took place in December, 1911, the various subsidiary companies owed the Standard Oil Company of New Jersey about \$75,000,000 for funds advanced for working capital, improvements, etc.

This was demonstrated when the Vacuum Oil Company balance sheet of December 31, 1911, was published, showing \$2,000,000 of bonds and \$8,000,000 of notes held by the Standard Oil Company of New Jersey.

The court had instructed the subsidiary companies that thereafter they should not borrow from the Standard Oil Company of New Jersey. The Vacuum Oil Company realized, therefore, that sooner or later it should pay off this \$10,000,000, and was the first one of the group to take action by issuing \$12,500,000 new stock. This raised its capital stock to \$15,000,000 and paid off all indebtedness, and also placed an additional \$2,500,000 in its treasury for working capital. This new Vacuum stock subscription was the first to make holders put up new money or sell rights, and brought hundreds of stockholders into the market that otherwise would never have been aroused. Of course, the majority subscribed, but there were enough who preferred to sell "rights," to make a lively market on declining prices. This reached a point where investors became heavy buyers, for Vacuum Oil Company with no debts, and a book value of 190 per cent. was then very attractive at current quotations—around \$150 per share—June, 1912.

Standard Oil Company of Indiana, with a capitalization of \$1,000,000 and a replacement value far over \$30,000,000 changed its capital stock to \$30,000,000 by sending the holders of one share, 29 additional shares, without asking for any subscription. This was so often referred

to in the papers, that in some strange way it was considered like a 2,900 per cent. "cash" dividend, although it was actually a recapitalization. Other companies followed, some with other readjustments of capital stock, without asking for subscription, such as Standard Oil Company of Nebraska. Others sold new stock to their stockholders at par, such as Standard Oil Company of California and Swan & Finch. This began to look like a regular thing and increased the breadth of the market, although it undoubtedly discouraged some who could not afford to continually subscribe to the new stock issues.

Prairie Oil & Gas Co., the only company with a regular bond issue (\$18,000,000), paid off, out of earnings and surplus, approximately \$7,000,000 in the first nine months of the year.

These companies published statements of earnings and balance sheets in order to encourage subscriptions, and demonstrated splendid financial conditions, which also improved stock prices.

CLASSIFICATION OF COMPANIES.

So many holders were confused with the 33 new companies from the first day they received their certificates, that they retained the idea that the whole thing was mysterious. As a matter-of-fact, the companies group themselves very naturally into a few general classes. First come the mining or producing companies, of which the Standard owned very few—(the Ohio Oil Company, the Prairie Oil & Gas Company and South Penn Oil). This showed their willingness to a certain extent to let the prospectors for oil take the risk, as well as the profit. The Standard Oil of New Jersey seemed to prefer other investments than oil wells.

With ten pipe line companies the transportation group was much better represented in the Standard Oil treasury. Its refineries were usually owned by the

companies of the various states, such as Standard Oil Company of New York, California, Indiana, Ohio, etc. These refining companies usually market their own products direct to the consumer in their own states. The Vacuum Oil Company, however, covers the specialty field, not only throughout the United States, but in foreign countries, distributing all kinds of high-grade products and engine oils, and, of course, the well known brands of "mobile oils." It has depots and agencies in almost every civilized port. The name of Vacuum is probably as well known all over the world as any, or better than any other American company. The Galena-Signal Oil Company is the railroad specialty distributor, and operates chiefly in this country.

While the building of refineries, in a general way, followed the location of new large oil fields, namely, Standard Oil Company of Indiana, in the mid-continent field; and the Standard Oil Company of California, in the California field, nevertheless the Standard Oil Company of New Jersey has been enlarging its already enormous plant at Bayonne, N. J. (refining about 40,000 barrels of oil daily), by constructing almost alongside of it at Bayway, a plant with a daily capacity of 23,000 barrels. The concentration of refineries on the Eastern coast is remarkable. New Jersey, New York, Philadelphia and Baltimore plants have a total capacity of 115,000 barrels daily. This contrast with the Whiting, Ind., plant, which handles 30,000 barrels daily, demonstrates our very large export business.

The Anglo-American Oil Company, incorporated in England, with par value of £1., controlled the marketing of oils in the United Kingdom for the Standard Oil Company and also acted as a transportation company with a fleet of large tank steamers. It must meet there the Shell-Rothschild competition, and other large foreign companies, that may cut far into merchandising profits. However, the stock was very popular with speculators on the New York Curb. It sold around \$6 a share in December, six months later it touched \$24 a share, and then declined to \$18. This quieting effect was produced by the published

statement of the company, which took some time to circulate from London, to the *new* stockholders here, who had bought blindly on the rise. This kind of speculation is nothing new to Wall Street, however.

CRUDE OIL MARKET.

Some claim that all these remarkable prices for Standard Oil stocks reflect the very large increase in profits due to higher prices for gasoline, kerosene, etc., forced upon the consumer. Let us look further than the desire to impose upon patrons, whom, after all, the Standard Oil has treated rather well for forty years. In 1870 refined oil in barrels at New York was 26½ cents per gallon. Ten years later it was 8½ cents, since which time it has often sold as low as 6 cents per gallon.

Crude oil in 1911 in Pennsylvania sold at about \$1.30; in August, 1912, \$1.60. Mid-Continental oil advanced in the same period from 44 cents to 70 cents. These are remarkable advances, and reflect unusual demand, to say the least, 20 per cent. in Pennsylvania to 60 per cent. in Kansas.

This crude oil field, remember, is not controlled by the Standard, for the Government suit brought out very plainly that only about 12 per cent. of the producing, or well drilling companies in the United States were owned or controlled by the Standard Oil Company. It must therefore buy large quantities of crude oil in the open market daily, in competition with many independent companies; for example, Texas Oil Company, Gulf Oil Company, Pierce Fordyce Company and others. It is this competition alone that has advanced the price of crude oil, for what object would the Standard have in paying higher than necessary for a very large part of its supply? What has stimulated this competitive buying at the oil wells? Not a lack of supply, for the figures show normal production throughout the United States. The official figures for 1910, 209,550,000 barrels; 1911, 220,450,000 barrels, and 1912 will hardly show much change.

The consumption of petroleum and its products the world over is unprecedented, and is almost entirely responsible for

the very high price of products. The same general laws of supply and demand hold true in the petroleum industry, as in copper, coal and other mineral industries. In such times, of course, the manufacturing companies, including the independent companies, make larger profits proportionately than under reverse conditions.

Let us look even further at the approximate consumption of oil. For over a year the refinery men say they have been drawing from the total crude oil storage-tank surplus (which was 100,000,000 barrels a couple of years ago), at the rate of 40,000 barrels per day. Also crude oil in tank storage in Middle West and Eastern States show large daily reductions. This world clamor for oil, sufficient to consume the normal supply plus 40,000 per day out of surplus, will certainly maintain a high price for crude, until some other large new high-grade fields are discovered. The Pacific Coast production is apparently keeping pace with consumption, although largely of the heavy fuel oil grade, which yields about 5% gasoline against 20% from Pennsylvania crude.

INCOME YIELD ON STOCKS.

The quotations in January were largely made without the help of regular dividends to guide the investor. With the passing of the quarter year, dividends began to appear, principally on the pipe line stocks. It was assumed that these pipe line dividends were quarterly, although nothing positive was stated at the time of declaration. Owing to this uncertainty, some of the pipe line stocks sold on a basis to yield from 12 to 15 per cent. Three months later, however, when second dividends were declared at the same rate as the first, it seemed to establish the fact that they would be quarterly; and investors accustomed to the usual 7 per cent. preferred stocks were attracted by these high yields and bought them at advancing prices until the yield was cut down to approximately 10 per cent. or less.

As most of the refineries have not declared any regular dividends, it is hard to show any comparative tables. However, they yield the investor about half what the pipe lines do, as they re-

present the more stable features of the industry. Pipe lines largely depend on the continued supply of crude from the adjacent territory, while most of the refineries can secure oil in a variety of ways.

Up to August the actual aggregate cash dividends paid by only three-fourths of these 34 companies totaled 20 per cent. greater than the old stock paid. This also has its direct bearing on our original question. Also heretofore Standard Oil stock was never exploited in the stock market and when large dividends appeared the natural advances resulted.

FORECASTS.

The magazine article to which the writer has referred suggested that the reason for the Standard's power in the industry was its large liquid capital, estimated at about \$50,000,000 in 1906, always ready to focus on some department when desirable. For example, when the years of extra large oil production came, around 1908, the company stocked up as seldom before, with low priced petroleum, and was in a position to hold it for years of slack production and probable high prices. This large capital, however, must have gradually grown, and the above policy must have been only one of many working toward such great success. Undoubtedly hereafter on this account, the subsidiary companies will be educated to large surpluses, and this especially in the crude oil companies. The Ohio, Prairie, South Penn, etc., will have to accumulate enormous cash reserves, or largely increase their stock issues, as they cannot now be financed by the parent company—Standard Oil of New Jersey. This will mean small dividends, while the building up of working capital takes place. The growth of the business will demand large extensions and improvements, and whatever dividends are paid this year, it will be fair to assume have been earned several times over; and there will certainly have been ample depreciation, reserve and betterment charges deducted before dividends are considered. These new directors will now undoubtedly do their best for their separate companies. Small rivalries may perhaps spring up between them, but with the prevailing conditions, they

will hardly amount to destructive forces.

Should you ask a practical refinery man, for example, our general question on the remarkable rise in old Standard Oil Company stock, he would probably say something like this—Under the old conditions the pipe lines made relatively the largest profits, while the refineries were generally left to fight competitors with small profits, and very uniform earnings for the combination of the Standard Oil companies resulted. Now, under the new court regulations, each company and each independent competitor strives to make earnings at least sufficient to pay dividends, charge off depreciation and build up surplus reserve. This has been made possible now with the unprecedented world demand for petroleum products. Abroad the same conditions prevail, with demand now greater than supply, and a depleted surplus facing the foreign refiners.

All the oil companies in their various branches making large profits would almost certainly yield the old Standard Oil stockholders much larger dividends than ever before in the history of the company—probably twice as large. In years to come, with the field crowded by the growth of independent companies, should demand for oil fall below supply, hard times will bring different results. That apparently is something for future years to contend with. The present unusual condition is certainly reflected in the price of the various stocks.

COMPARATIVE ADVANCES.

It is interesting to note the comparative percentages of rises in the price of some of the groups, since the first of the year. The three crude oil company stocks show about 85 per cent. increase in price, and the refinery stocks, with the exception of Standard Oil of New Jersey, show an average advance of 165 per cent. The deduction to draw from this, in the writer's opinion, is not that profits have increased in nine months sufficiently to warrant such a change in value of the stocks, but it undoubtedly shows that the early transactions were made without knowledge of the assets of the companies, and the recent transactions were based upon statements of probable large earnings and future prospects.

The pipe line stocks also show very large increases for the same reason—an average of 120 per cent. These earnings certainly have not so changed in nine months as to warrant anything like these increased valuations, and must therefore be explained in the same way as the refinery rise.

OPINIONS.

Officials seem to have varying ideas regarding the cause of the remarkable rise in the price of their companies' stocks, for, while one man might talk on the above lines, another will tell you that because of the rumors of melons coming to every one of the 33 companies, circulated by "nobody seems to know who," the public that buys securities of this type have come to believe that each one of the 33 companies is a "bonanza." They have heard nothing but bull talk (and would not listen otherwise), and the rising price of products has given them an impression that it was all a pre-arranged bull market; and that profits would continue indefinitely, in spite of the competition certain to spring up with 17-cent gasoline as against 11-cent gasoline, and other products also 50 per cent. higher.

Many readjustments are sure to follow in time, and the different directors see these matters from their different points of view, as they may happen to be associated with a refinery, or with a pipe line, or possibly with one of the foreign marketing companies, and their opinions, of course, are all good to a certain extent. However, the future is so involved that it is probably fair to assume that very few have a positive idea of just what to expect for the next few years.

An interesting side light is shown in an interview with the president of the American Tobacco Company the other day. He was asked to explain the large advance in the distributed Tobacco company stocks, and replied that the separate companies are now advertising their own brands very actively and expanding the business considerably. This is also true of the oil companies. He also claimed that the high prices of Tobacco securities are due chiefly to the fuller public realization of their values, heretofore hidden, because of their being practically

all held by the parent company. This is also just what has happened in the oil stocks.

The conclusion would seem to be, therefore, in answering our question, in so far as it is possible to name any principal cause or causes—the extraordinary

activity in the industry and demand for oil products, the low original prices due to ignorance of earnings or high income yield attracting investors, and scarcity of securities, coupled with an underlying popular demand for Standard Oil stock investments.

The Investment Bankers' Association What It Proposes To Do

If ever an organization made an auspicious beginning that organization is the Investment Bankers' Association of America. It is surprising that so many years of crying necessity for such an organization should have passed without apparently the least effort to put into life an agency for the protection of the public and the development of the science of investment.

The organization that now exists is an organization of eminently young men representing some 200 houses scattered throughout the entire length of the land. The fact that some of the young but very able men in the bond business are to direct the destinies of the association is a guarantee that its energies will be manifold and effective.

The germ thought of the association in its earlier stages was to bring about a condition in the investment markets that would protect investors from the unscrupulous seller of worthless or near-worthless so-called securities. There has been such a flood of trash and frauds floated into the channels of investment during the past few years that sentiment among the reputable investment houses has been steadily crystallizing.

It was soon apparent to the organizers of the association that their work should be very broad, that protecting investors in this way meant educating them, for one thing, and at the same time getting at the fountain-head of the difficulty, preventing the issuance of fraudulent securities so far as possible. Furthermore, it was quickly seen that such an organization could set a standard for its own members to follow that would result in a still higher tone than has been the endeavor of so many houses always.

To this end the convention that the association held late in November laid down a programme as the epitome of its work that will keep its officers and members busy for a long time and make the bond-selling profession one of the most highly respected. In fact, if the programme is carried forward with the enthusiasm and energy that marked the beginning of all the association's meetings there

should develop an institution for the public good that will be far-reaching in its influence. What the association has set out to do and some of the things that may be expected from it may be inferred from the programme as given and summarized by its president, George B. Caldwell, of Chicago:

First. Careful attention to the ethics of bond trading by the members.

Second. Pay careful attention to proposed legislation, lending aid to the passage of various measures that will standardize the issuance of municipal bonds and the work of public utility commissions.

Third. Make the association a working association and not purely a fraternal association.

Fourth. Furnish the secretary's office with such information as recent court decisions and those of the Interstate Commerce and Public Service Commissions; also information regarding defaulted issues and those in which money has been lost and the houses that put them out and deal in them.

Fifth. Co-operate with the public press and State and Federal officials for the elimination of all unreliable promotions by irresponsible promoters.

A notable feature of the association is its cosmopolitan make-up. Every section of the country is almost completely represented. Big and little bankers have joined hands in the working out of a problem that has vexed all reputable houses for a long time—that is, how to protect the investor from his own ignorance in the matter of buying securities.

It will be noted from the programme that the motive of the association is far from purely selfish, in the sense that its greatest work will be to sell more good securities and prevent the sale of bad ones, but is one of public benefit quite as much if not more than for private gain. It will be seen at a glance that much of the work cannot bear directly on the increase of the business of any firm or group of firms, but will be correctional and directional in the broadest sense.

Opportunities for the Small Investor

By HENRY HALL

Author of "How Money Is Made in Security Investments"

IN considering the subject of opportunities for the small investor, one is irresistibly reminded of the fact, first, that there are many people in this country who do not care what these opportunities are. Any presentation of the subject to them would be met with entire indifference.

It is a deplorable circumstance, that, in no other country in the world, are there so many people who spend every dollar of their receipts, or where there is greater need of inculcation of habits of thrift among young persons and those of moderate income. In many lands thrift is general, the product of the difficulty of obtaining any kind of subsistence, the smallness of opportunity, the low rates of interest and a lifelong necessity for careful saving. Aforetime, in the United States, when similar conditions prevailed, our people also were thrifty. They were quite as happy as people are today, even more so, I think, because they were contented and because, among any group of neighbors, there was less disparity as to worldly possessions. Few were rich and none ostentatiously so.

But America has since become the land of great opportunities, ordinarily of sufficiency of employment, and certainly of high wages for labor, handsome returns from the soil, and of great fortunes made in mines, corporations, finance and speculation. Money is made easily by those whose skilled labor is in demand or to whom business opportunities present themselves; and, in imitation of others, money is now spent lavishly even by people who cannot really afford such expenditures.

The power of example is largely responsible for this state of things. Too many men start wrong in life, because they go to some college, where some of their mates with wealthy parents live in expensive style, and where the poorer men are led discontentedly into habits of expense, not justified by

their means. Every city now contains many examples of the newly rich, who want to enter society and who believe the way to accomplish the result is to live ostentatiously and fling money right and left, and have a new motor car every year, and who have the perfectly absurd idea, for instance, that when they travel or visit the metropolis of their country for recreation they would lose social prestige unless they spent from \$40 to \$75 a day while they are away. Those who are struggling up from the ranks only too often believe that they should do as these others do; and from one cause and another and as a general result, the habit of spending has taken the place of the habit of thrift only too extensively in the United States. Among such prodigals there is no inquiry for the opportunities for investment of surplus earnings.

However, there is a saving remnant among our population, and a large one, with whom the old-fashioned verities are as influential as ever, and who will ever cling to sound and sane principles. They regard provision for old age and for the future of their families as of greater importance than the pleasure of the passing moment; and they know that the way to gain this desirable end is through labor at a useful vocation and investment of surplus earnings, year by year, until a competence has been accumulated. By these people opportunities for investment, even of small amounts of money, are eagerly sought. It is a fact that with thousands of our fellow citizens the amount of money which becomes annually available for investment is small, running from not more than \$200 or \$300 to a thousand or two a year. Opportunities for the safe and profitable investment of this money are of great consequence.

The whole business of investment resolves itself into two cardinal

branches. First, the correct securities to buy. Next, the figure at which to buy. Both branches of the subject are now far more complicated than in the days of our grandfathers. Formerly, the saving man was constrained to select from a very few bank or gas stocks and from a limited number of public bonds. Today, there is a perfectly bewildering array of securities from which to choose. Once, the fluctuations in the price of securities in the course of a whole year were almost negligible. There was almost no speculation in them; important changes of value came about only with the passage of several years. Today, \$1,000-bonds can decline in market value from \$150 to \$250 each in a single year, while corporate shares have been known to fall from \$80 to \$100 each in market value within the same length of time. It must be assumed that there will never be any fewer securities to choose from, hereafter, than there are today; and that great changes in market value will persist for several generations to come. Such changes must be expected, for many reasons, even after a reform of our banking system, until all our natural resources have been developed, until all railroad building has come to an end, until the tariff and corporation policies of the country have become absolutely stable and unchanging, and until universal arbitration takes the place of war. All of this will come to pass neither in your day nor mine.

This modern state of facts is what has called into existence such publications as THE MAGAZINE OF WALL STREET, and a number of professional advisers who make a special study of what securities to buy and when to buy (and sell) them. Every amateur investor of intelligence can master all the intricacies of finance and all the facts as to intrinsic and potential value of each individual security and the best opportunities for investment, if he will devote thereto as much labor and time as is required to master any other exacting vocation. This the large investor already does. In fact, he devotes his life to it. He can expend his undivided energy upon this one subject, create a great library of works of ref-

erence and financial literature, and place himself in a position to take advantage of all the best opportunities the security markets supply. The small investor, occupied with his daily labor, cannot do all this, but is not without resource, however. The elementary principles of investment are continually discussed by such publications as THE MAGAZINE OF WALL STREET; and a wealth of information is supplied in each number as to particular securities, the broad aspects of investment, and the fundamental influences which govern the market value of securities. I can think of no more admirable beginning for the amateur investor than to become a constant reader of such a publication. From time to time an opportunity of the greatest importance will be revealed to him by his magazine.

Once a year, *The Journal of Commerce* of New York compiles a table showing the number of owners of shares of all the leading corporations in the United States. Quite frequently the annual report of some industrial corporation mentions the number of its own shareholders. It is plain, from these publications, that the number of small investors is large. One fact is not revealed by these reports, however, and naturally could not be, to wit, the price paid by each individual for his stocks. A long experience with human nature and with the popular haste for setting money at work to bring in an income, when once it has been accumulated, and with the increase of number of small investors in booming times, leads me to believe that the bulk of the stocks owned by small investors have been unwisely purchased, that is to say, that too high a price has been paid for them.

It can hardly be called an "opportunity" for a small investor or any other kind of an investor to go blindly into the market and buy 5 or 50 shares of a particular stock, just when money has become available for the purpose, and entirely without regard to what has happened to the price of the stock during preceding years, and without regard to conditions which are looming into view in the near future. That

is not improving an "opportunity." That is reckless investment. An "opportunity" presents itself during a panic or a strong market reaction, when a good, sound stock or a bond is selling below intrinsic worth, and when income yield is larger than the average rate of interest on long time loans in the New York money market, or is considerably larger than the dividend paid. This is a principle which should be borne in mind consistently, and a few illustrations will make the point clear.

When U. S. Steel sold at \$50 a share, during the unnecessary scare over the dissolution suit in the Fall of 1911, income yield at that figure was 10 per cent. (the stock paying \$5 a year). At that price 8,500 shares were bought by somebody, and 104,800 shares between 50 and 51. This was a great opportunity for the small investor.

When, in the panic of 1907, Union Pacific sold at \$100 a share (then paying 10 per cent.), income yield was 10 per cent. A very few hard headed individuals bought Union Pacific at that figure and some of them yet have the stock. That was an extraordinary opportunity.

After going on a 4 per cent. basis in 1911, U. S. Rubber common sold below 46 early in 1912, at which figure income yield was 8½ per cent. In view of earnings and statement of annual reports there was another fine opportunity for safe investment.

In November, 1907, Brooklyn Rapid Transit 5s, which are as good as gold and had previously sold at \$1,127.50 a bond, were bought by many investors at \$850 a bond. Coincidently, at that time, a vast number of high-grade bonds ranged at similarly low prices. That was a genuine opportunity for bond buyers.

To the small investor absolute safety of capital transcends in importance the exact per cent. of income from the securities. Income is desirable, but with the man of moderate means safety of capital ought to have priority. Therefore, it is never wise to invest one's money in any denomination of stocks, unless there are substantial reasons for believing that an advance in

price is one of the certainties of the future. It is a homely-old maxim, and to abide by the rule certainly has its inconveniences. Nevertheless, the principle is correct and cannot be too strongly insisted upon. No one will ever escape impairment of fortune or will ever succeed in adding to fortune unless he observes it. The inconvenience of adapting one's investments to it, rigidly, grows mainly out of one fact, and one only, namely, that money must sometimes be allowed to remain idle in the bank for months, sometimes for nearly a year, before it is set at work earning an income for its possessor.

Once a year, however, always, so far as stocks are concerned, usually twice a year, opportunity arrives. It always pays to wait for it. February or March in the Spring, and in the Fall months, September or October, usually bring to the investor his opportunity. For various reasons there is customarily a strong reaction in stocks at those periods in each year; and if the times are normal, and no panic is impending, the small investor can buy stocks in the reasonable certainty that his capital is safe. He may not buy at exact bottom prices, and it is not necessary to. I do not know of a Spring or Fall for many years past, even in the panic of 1907, and in the bear market of 1910, when the small investor could not have made discriminating purchases of good sound stocks, in safety, even when (as in 1907 and 1910) prices were later temporarily depressed below his purchase price.

With reference to bonds, the small investor can now buy many denominations of this class of securities, ranging in par value from \$100 to \$500 each. The \$100 bond is a development of the last few years. Any broker can supply a list of them. From time to time the financial columns of the daily newspapers print a little table of them.

Convertible bonds are a class apart. Since they are exchangeable, on certain specified terms, for the shares of the corporations issuing them, they follow the stock market up and down. Given a probable important rise in the stock market, as in the year following a

panic, a convertible bond can normally be bought with entire safety during a Spring or Fall reaction. A notable case of a convertible bond following a stock upward was an incident of September, 1912. August 29, 1912, General Electric authorized a 30 per cent. stock dividend to its stockholders, whereupon General Electric rose to 188½, an advance of 33½ dollars from low of the year. In one week's time, after the announcement of the stock dividend, the 10-year debentures of General Electric of 1907, convertible at par into stock, jumped from 159 to 182. There are few such wild flights of prices as this in convertible bonds; but their fluctuations are always considerable, and during stock market reactions the opportunity is always presented to purchase them on terms which insure the safety of capital invested.

The subject of ordinary bonds is too extensive to be dealt with here, at any length. High cost of living leads the big investors to demand a better rate of income from their securities than formerly, and since 1909 there has been a steady and persistent decline in the market value of all the groups of ordinary bonds. The movement has been promoted, also, by the enormous volume of business which is being transacted at home and in Europe, and the consequent high rates of interest on money. When long-time loans bring 5½ to 6 per cent., and bonds less than that, large capitalists receive an additional impulse to sell their bonds and employ the money where it will bring a larger return.

In the last ten years only two real opportunities have been presented to the small investor for the purchase of ordinary bonds, namely, the panics of 1903 and 1907. Upon both of these occasions all classes of bonds suffered a severe relapse in price. The 1907 episode was the most awful one of the two. An opportunity for safe purchases of good, sound bonds came to hand in both of these years and was then greedily availed of by men who kept their heads. There is always a smart recovery in prices within the twelve months following a panic, and capital put into bonds is safe, to say

nothing of the better income supplied. Since 1909 there has been no real opportunity whatever for the advantageous purchase of ordinary bonds. I believe we are approaching one, and that it will develop during 1913. But that is another story.

It will undoubtedly strike a good many readers of this article that the subject is being discussed from a point of view which hints strongly at the speculative aspects of security investments. Well, what then? To my mind, the day has gone by, and will not return for a generation or two, when the speculative aspect should be left out of consideration.

Indeed, I take the position that a wise investor should, from this time forward, always occupy a trading position, both with reference to stocks and bonds. In a boom he will clean out his whole safe deposit box and sell his securities, whether he gets top price for them or not. In a panic or great reaction he will repurchase. His capital will always be safe, under such circumstances, and he will add to it from year to year. Why should he not do this? What is the sense of locking up in a bank vault a lot of even the most gilt-edged collateral and letting it decline heavily upon one's hands from time to time, hoping that eventually it may recover to its purchase price? What is to be gained by that? Or why permit one's bonds to remain undisturbed, through thick and thin, in the expectation that at maturity they will be paid off at par?

A few corporations pay off their bonds and retire them. The majority do not. The growth of this comparatively undeveloped country compels a continual expansion of business facilities and the generality of corporations are obliged to seek more and more capital. Old bond issues are, therefore, as a rule, refunded and exchanged for new ones.

The investor does not need to become a speculator. He does not need to aim, only or mainly, at taking advantage of fluctuations in prices; but if he does not go into and out of securities a year or two, or a few years apart, he is certainly not taking advantage of the opportunities of the security markets; and

he runs the risk of impairment of invested capital.

One opportunity of these times, for the small investor, is the purchase of commercial paper, through a responsible broker. A large number of investors are now turning their attention in that direction. More trouble is involved, because renewals must be dealt with, from time to time; but the income return is good, and the

capital should be perfectly safe, and is not subject to the fluctuations of the stock market. The demands of trade and manufacturing have forced interest rates to a high figure all over the world, and the man who has any loose money to lend (or invest) can obtain for it, now, from commercial paper, an excellent rate of interest. The investment should be made through a responsible broker.

The Pujo Money Trust Investigation

THE natural desire of every business man is to be let alone. He has a feeling that his affairs are his own. He wants to mind his own business and to have other people mind theirs likewise.

It was to be expected that the active business men of Wall Street would have something of this feeling in regard to the Money Trust investigation. The Wall Street press in general is inclined to reflect this sentiment and to criticize the Congressional Committee.

So far as the proceedings of the committee have been reported down to the date this is written, we see no reason for criticism. An alleged interview with Mr. Pujo went the rounds of the press, which contained sweeping and unwarranted statements, but he afterward declared that the interview was unauthorized and that the committee will not be in a position to make any statement as to its views until the investigation is completed.

A fair and unprejudiced investigation never hurts any legitimate interest. If there is anything in Wall Street that will not bear investigation, that fact in itself gives ample warrant for turning on the light. There are so far no indications of any unfairness on the part of the committee. Its members are apparently working to get at the bottom facts of the situation and there can be no question that the public has a right to know these facts.

Any stirring up of customary business

methods is necessarily disorganizing for the time being, but we are inclined to hope for good results from this investigation. No one will deny that there are serious evils in Wall Street—no worse, doubtless, than in other lines of business, but more conspicuous because of the great importance of the functions exercised by the Stock Exchange and the great central banks of New York City. If the Pujo Committee can root out and extinguish these evils, more power to it.

Nothing ever gets to be so nearly perfect as to be beyond the possibility of improvement. There are many methods employed in Wall Street which have grown up without any special preconceived plan, merely as a practical way of handling business as it came along. These methods are not to be stigmatized as evils, yet it is easily possible that they might be improved by careful study and intelligent planning and organization. Whatever the investigators can do to forward this result will be a distinct and important service toward the progress of civilization.

Our idea is that Wall Street should welcome all investigations and should do everything possible to aid in turning on the full light of publicity. If unfairness is shown, it should of course be vigorously protested against; but it should be fully understood that the protest is lodged against the unfair methods, not against the investigation itself.



THE BARGAIN INDICATOR

Comparative Earnings of Important Stocks

NOTE.—The minus sign (—) before figures below indicates a DEFICIT for the year equal to the per cent. on stock given. Additions and betterments are included in earnings given, wherever distinguishing expenses of maintenance, since earnings invested in improvement of the property increase the equity of the stockholders and therefore render the stock more valuable. The value of a stock cannot be judged by its position in the table ONLY. Earnings for successive years as given should be carefully examined, with a view to stability and growth as well as amount. [Latest earnings will be found in table of "Monthly Net Earnings" or "Investment Digest."]

Railroads

Railroads	Earnings on par for fiscal year ending on any date during										Earnings last yr. on	Present yr. on	Notes.
	1906.	1907.	1908.	1909.	1910.	1911.	1912.	1913.	1914.	1915.			
Hocking Valley com.	7	9.9	11.2	6.0	8.3	18.2	16.7	16.6	14.3	11.6	Very inactive. Controlled by Chas. & O.		
Southern Railway com.	0	1.9	0.6	—2.2	0.5	2.3	3.1	3.1	2.7	11.5	Pd. now on 5% basis.		
Louisville & Nashville	7	10.6	10.7	7.5	14.3	17.3	14.2	15.9	14.0	11.4	Controlled by At. Coast Line.		
St. Louis S. W. com.	0	2.7	3.7	—4.2	—2.5	—1.1	1.4	3.8	3.5	10.9	Pd. now paying full div. of 5%.		
Twin City Rapid Tran. com.	0	8.1	8.2	8.3	9.9	10.9	11.0	—	—	10.2	10.8		
Brooklyn Rapid Transit.	5	4.8	4.4	4.1	4.2	5.6	6.8	8.3	8.8	9.4	Subways will doubtless enlarge earnings eventually.		
Norfolk & Western com.	6	9.7	9.0	7.1	8.7	11.6	9.0	10.1	11.3	8.9	Controlled by Penna.		
Atlantic Coast Line.	10	10.8	6.3	5.6	9.4	12.0	12.8	12.1	13.8	8.8	Holds control of Louisville & N. by stock ownership.		
Union Pacific com.	10	14.2	16.5	16.2	19.1	19.2	16.6	13.8	15.7	8.8	Holds \$307,106,000 secure of other cos.		
Cheapeake & Ohio.	7	7.3	5.4	4.4	6.4	10.0	5.1	6.8	7.8	8.8	Earns 1911-12 reduced by Chicago exten.		
Seaboard Air Line Ry. pfd.	5	—	—	—	—	—	—	—	—	—	Reorganization completed 1910.		
Min. St. P. & S. S. M. com	7	11.7	9.6	8.4	—8.8	15.7	5.3	11.1	13.9	8.0	Pfd. and com. share above 7%.		
Lehigh Valley.	10	18.2	20.0	19.2	15.4	23.0	16.5	13.2	13.4	7.7	Div. 7% R. R. 3% land sales.		
Atherton com.	6	11.8	15.0	7.7	12.1	8.9	9.3	8.2	10.5	7.8	Controlled by C. H. & Q. (Hill management).		
Canadian Pacific.	10	14.1	13.7	10.6	8.6	16.0	19.6	19.2	19.6	7.5	Large equity in C. R. & Canadian extensions.		
Caledonia & Sondercom.	3	3.5	4.5	4.8	4.9	7.3	5.2	3.4	3.4	7.5	Large equity in Hill management.		
Delaware & Hudson.	8	13.9	11.0	12.7	13.2	12.1	13.8	12.5	16.6	7.5	Including additions and betterments. Controls Jersey Cn.		
Baltimore & Ohio.	9	12.6	15.2	12.4	12.5	12.5	12.1	12.5	16.3	7.2	Holders may benefit by dissolution.		
Southern Pacific com.	6	12.6	9.9	5.1	7.1	8.9	6.9	7.6	10.7	7.2	Pfd. and com. share equally above 6%.		
Balt. & Ohio.	6	8.1	12.5	7.4	10.2	13.0	9.6	7.6	10.7	6.8	Pfd. and com. share above 5%.		
Pittab., C. & St. L. com.	5	8.6	8.8	6.2	6.3	12.3	8.0	8.4	11.7	7.1	Pfd. and com. share above 5%.		
Northern Pacific com.	5	8.6	8.8	10.7	9.0	10.8	6.1	7.0	10.3	7.1	Govt. audit threatened.		
N. Y., N. H. & H. Railroad.	8	12.2	9.2	12.8	10.7	10.7	9.0	8.2	7.9	6.6	Large equity in Hill management.		
Cleve., C. & St. L. com.	0	4.1	3.1	0.4	4.8	2.1	7.1	8.5	12.9	5.8	Cont. and finance W. Pac. wh. doesn't earn fed. chgs.		
Denver & Rio Grande pfd.	0	6.1	3.9	7.6	6.8	4.7	2.0	—	—	5.4	Other inc. reduced acc. segregation Coal Co.		
Delaware, Lack. & Western.	20	22.2	38.5	40.8	52.8	35.4	31.8	—	—	5.3	Controls 1/7th Rdg. through Lake Shore.		
N. Y. Central.	5	4.6	6.2	5.1	7.7	6.4	—	—	—	5.2	Pfd. and com. share above 7%.		
Chicago & Northwest'n com.	7	14.8	12.7	11.2	11.4	7.6	8.0	7.1	7.1	4.1	Preliminary statement—approximate.		
Minneapolis & St. L. pfd.	0	10.4	7.8	—2.7	—2.4	1.9	0.1	—	—	0.1	Preferred stocks. earning more than the per cent. to which the dividend is limited, but now		
Illinoian Central.	0	2.0	2.8	2.6	2.3	2.4	2.1	2.1	2.1	2.6	Div. paid since 1865.		
Erie, com.	0	2.2	—	8.4	7.4	10.3	3.2	—	—	—			
Chi., Mill. & St. Paul com.	0	2.2	3.0	—3.7	0.3	2.9	2.3	—	—	—			
Chi., Ge. Western pfd.	0	2.3	10.5	9.5	7.2	8.0	7.1	0.7	3.1	2.3			
Western Maryland com.	0	—	—	—	—	—	1.2	1.9	0.4	1.4	Connection with N. Y. Cent. completed. Will help earnings.		
Rock Island Co. pfd.	0	—	—	—	—	—	0.9	0.4	0.6	0.9	R. I. Co. owns 94% of stock of R. I. Lines.		
Kansas City Southern com.	0	0.3	5.4	—2.6	3.4	1.6	3.8	0.5	4.3	1.2	Controlled by Lake Shore.		
Wisconsin Central com.	0	1.7	3.2	—0.6	0	—2.5	—4.3	0.3	—	0.6	Leased to Tol. St. L. & W.—U. P. owns \$10,343,000 pfd.		
Chicago & Alton com.	0	4.9	9.0	6.5	8.2	5.4	6.0	—	—	0.7	Contr. by Tol. St. L. & W.		
Lake Erie & Western pfd.	0	3.1	2.0	0.8	—0.2	0.1	—	—	—	0.7	Controlled by Lake Shore.		
Mo., Kansas & Texas com.	0	1.8	5.0	0.4	0.7	0.8	2.0	—	—	0.8	Rehabilitation will take 2 or 3 years.		
Missouri Pacific.	0	8.1	9.9	3.7	1.3	3.3	6.3	—	—	0.9	Earnings given exclude divs. on holdings of Alton stock.		
Toledo, St. L. & West. pfd.	0	4.7	6.4	0.2	1.0	0.6	0.5	0.2	—	0.1	Entitled to 4% before com. divs.		
St. L. & San Fran. 2d pfd.	0	13.2	24.7	1.6	8.2	8.8	8.3	0.3	—	0.1	Now undergoing reorganization.		
Wabash pfd.	0	—5.4	0.9	0.3	—0.5	1.3	—	—	—	—	Preliminary statement—approximate.		

Preferred stocks earning more than the per cent. to which the dividend is limited, but now paying either no dividend or less than said limit;

Industrials

The Investment Digest

THE sources of items are indicated as follows: *Leading financial and investment publications. †Banking and Stock Exchange houses. §From official sources. Neither "The Magazine of Wall Street" nor the authorities quoted, guarantee the information, but it is from sources considered trustworthy. Owing to the vast amount of information condensed into these pages, many abbreviations are necessary. For additional earnings, see also "Bargain Indicator" and "Monthly Net Earnings."

Allis-Chalmers.—*PROGRESS OF RE-ORGANIZATION—U. S. District Court has entered final decree of sale in suit to foreclose first mortg. sale to be on Feb. 3, 1913. An additional \$6 assessment on pref. and \$3 on com. is called for Jan. 15. Reorganization Committee consider that they have won in the courts practically everything fought for.

Am. Agricultural Chemical.—*IMPORTANT NEW STEP—Co. will study needs of different crops and soils in different sections of the country, so as to vary its products accordingly. Co. will make free examination of soils for customers and advise them how to correct unfavorable conditions. A Bureau of Information will be established for this purpose. The adding of a scientific Information and Demonstration Dept. marks a new departure in the fertilizing industry.

Am. Beet Sugar.—*EARNINGS AND THE TARIFF—Downward trend of sugar market since Oct. 1, and probability of relatively low prices next few mos., will reduce expected earnings somewhat. Balance for com. probably about 12% against 13.5% last yr., 7.3% 1910, and 7% 1909. Some of 1912 crop was sold ahead of production, so that better than current prices were obtained. Removal of tariff on sugar would mean lower prices for refined, but it is not believed that the duty will be entirely abolished, as beet sugar states have strong representation in Congress.

Am. Brake Shoe & Foundry.—*RIGHTS—Stockholders have right to subscribe to 10,000 shares new pref. and 10,000 shares com. at \$215 per unit, consisting of one share pref. and one share com. together. Rights terminate Jan. 2. Practically decided to place pref. on 8% basis in March. Regular quarterly divs. of 13 1/4% on both pref. and com. payable Dec. 31, to holders of record Dec. 20.

Am. Can.—*NEW PRODUCTS.—New adding machine placed on market Nov. 1 is expected to do the work of more expensive devices at much lower cost. Co. has perfected a new fibre container selling for 1-3 the price of the tin equivalent, with large possibilities of increased profit. A large cereal Co. has placed orders for entire present productive

capacity on this container. Earnings, now running 19% on pref., which would allow good part of unpaid divs. to be wiped off next yr. Growth of Co.'s business has been almost unbroken since 1902, and total depreciation written off to Dec., 1911, is \$6,061,354, with \$10,242,573 also for new property.—*Am. Can will pay Vulcan Detinning about \$500,000. This money has been in a special fund for several yrs., so no additional provision will be made. The Can Co. has not used the Vulcan process for several yrs., having now one of its own that answers the purpose.—*Quarterly div. 1 1/4% on pref. (increase of 1/2% to 7% basis), and 1/4% toward reduction of 34 3/4% of accumulated divs. in arrears. Daniel G. Reid says: "In first ten mos. of 1912, Co. earned \$7,000,000 net. We were unable to do all the business offered and are compelled to increase our factory capacity. We therefore deemed it for the best interests of our stockholders to retain a large working capital. We are now in such financial condition that we are independent of the money market. I cannot say how long it will take to pay off the back divs. on the pref. altogether, but it will be done much quicker than Wall Street expects."

Am. Car & Foundry.—*BUSINESS PROSPECTS—May to Oct. earnings exceeded 1911, and fiscal yr. ending Apr. 30 next will show good results. Operations now over 80% capacity, with orders several mos. ahead. No increase in 2% div. rate on the com. is expected at present. Large expenditures for several yrs. have equipped plants to meet growing demand for steel R. R. equipment. Co. probably booked orders for over 50,000 cars first half of fisc. yr. Capacity is about 125,000 fr. and 1500 passr. cars yrly. Steel Cos. however, are 2 mos. behind on contracts for material. Regular quarterly div. 13 1/4% on pref. and 1/4% on com., payable Jan. 1, to holders of record Dec. 10.

Am. Cities.—*ELECTRIC POWER DEVELOPMENT—Co. owns 87% of capital stock of Birmingham Ry., Lt. & Power, Memphis St. Ry., Little Rock Ry. & Electric, Knoxville Ry. & Lt., and Houston Lt. & Power, and 93% of New Orleans Ry. & Light. Total population served about 880,000. Advance in stock due to acquisition of 20,000

shares Dec. 1 by English syndicate identified with Alabama Traction, Lt. & Power, and taking of options on 30,000 shares more at 65. The Alabama Co. is developing 500,000 horse power in hydraulic electric plants for distribution to New Orleans, Memphis and Birmingham.

Am. Cotton Oil.—*CURRENT EARNINGS—Although com. div. was passed, about 6.5% was earned, and cash fell off less than \$300,000 from high record mark of a yr. ago. A \$758,000 deficit after divs. in 1911 prompted directors to use 1912 earnings, in development of business and property. Surplus for pref. was 18.9%. Working capital increased \$1,000,000 as result of sale of \$5,000,000 bonds in 1911, \$3,350,230 of which was added to this item. Profit and loss balance now \$9,578,040, largest in history.

Am. Ice.—*NOVEMBER SALES gained 22% over last yr. Fiscal yr. ended Oct. 31. One of several increases in expenditures was higher feed for horses, more than \$100,000 over 1911.

Am. Light & Traction.—*GROWTH OF COMPANY shows continued progress. Divs. in 1912 increased \$1,925,479 over 1908 and \$845,822 remained for surplus, which assures continuation of usual divs. \$2,697,000 com. stock remains in treasury, which will take several yrs. for Co. to disburse at 10% stock divs. annually, which is now paid.

Am. Linseed.—*ECONOMIES—Fisc. yr. changed to end Sept. 30 instead of July 31, owing to late maturity of flax crop. Business increased 20% during yr. and overhead expenses reduced \$40,000. Efficiency has been increased, and during coming yr. Co. expects to crush more flaxseed at less cost than before. For 14 mos. ending Sept. 30 total loss was \$478,300 charged to surplus, leaving surplus at \$767,970.

Am. Locomotive.—*EARNINGS AND FINANCING—Earnings quarter ending Sept. understood to be at rate of over 22% yrly. on pref. stock. Operations increased from 70% of capacity in June to nearly 90% in Sept. Present operation 90%. Understood that Hallgarten & Co. hold large amount of stock and will probably take charge of future financing. Indebtedness will be paid if possible from earnings. Total notes now outstanding \$7,600,000. June 30 convertible assets were \$23,783,454 and current liabilities only \$15,134,059. Earnings, fiscal yr. so far at rate of 16 to 18% on com. stock, but management prefers to build up working capital and retire outstanding notes before declaring divs.

Am. Pneumatic Service.—*POSSIBLE GOVERNMENT OWNERSHIP—Special Congressional Commission is investigating question of government purchase of Co.'s tubes, now unde rental, and strong sentiment exists for government ownership. Co. has between \$7,000,000 and \$8,000,000 invested in tubes in four cities.

Am. Smelting & Refining.—*TARIFF OUTLOOK—Com. stock, on basis of div. yield, is higher than many standard industrials, but impending tariff revision and threatened dissolution action by authorities at Washington render its position vulnerable. A possible line of segregation, if forced, would be separation of Smelting & Refining from Smelters Securities, whose com. stock it owns. Smelters Securities, through its \$15,000,000 bond issue, is now financially independent. Reduction in lead tariff would injure American Smelting, although brunt of tariff cut would fall on the producer. Bulk of Co.'s business is treatment of custom ores.

Am. Steel Foundries.—*CURRENT BUSINESS—Stated that Co. is operating 85% to 90% of capacity, with orders on hand for 3 or 4 mos. Earnings, current quarter probably at rate of 7% yrly. on stock.

Am. Tobacco.—*BIG EARNINGS—20% basis for com. expected in 1913, and probably another melon of 15 to 20%, representing sale of treasury securities since splitting up of the old Co. These had par value of \$14,000,000. Am. Cigar earnings will be 13 to 14% on the com. for 1912, against 10% 1911. Am. Tobacco owns all the Cigar Co.'s stock. This is first full yr. Am. Cigar has paid com. divs.

Am. Woolen.—*POSITION OF PREF. STOCK—Although the preferred is at the lowest figure since the panic, present business is best in Co.'s history. Net quick assets alone equal \$70 a share on the proof. Hence at a price of 80, only \$10 a share, or \$4,000,000 in all, is the value put on the Co.'s properties. This is not half the value of a single one out of Co.'s 34 mills—the Wood Worsted mill, the largest in the world. This yr., despite the strike, should show an incr. over the 8.06% earned last yr. The 55th consecutive quarterly div. of 1 3/4% will be declared about Dec. 15.

Atchison, Topeka & Santa Fe.—*EARNINGS—Although Oct. broke the record for that mo., the road moved only a part of freight ready for shipment. Conservative estimates are for earnings of 10% or over in current fisc. yr.

Atlantic Coast Line.—*FINANCIAL POSITION—Last fisc. yr. increase of \$1,841,108 in gross was turned to decrease of \$372,084 in net. Passr. traffic incr. 8.85% and fr. traffic 4.01%. Working assets \$14,764,969 against \$15,574,249 previous yr. The \$6,000,000 new com. stock now being offered stockholders at par to extent of 10% of holdings will not increase working capital, but will be used toward \$7,787,375 capital expenditures in construction of branches, purchase of equipment, etc., and for part payment of Co.'s subscription to new L. & N. stock. New issue will increase outstanding com. stock to \$64,700,000. On this amount earnings last yr. equaled 10.9%.

Baldwin Locomotive.—*CURRENT BUSINESS—Co. is doing biggest business in history, with current earnings, at annual rate

of about 20% on the com. against 12.7% last yr., after paying 3 1/4% on the pref. Deducting the full 7% on pref., 1911 earnings were 9.2% on com. Gross sales last yr. \$29,342,585; this yr. over \$40,000,000. Co. is employing over 21,000 men, with orders ahead 4 to 6 mos. Net profits for yr. will probably be 14% on com. after 7% on pref.

Baltimore & Ohio.—*OPERATING ECONOMIES—Annual report shows that Co. is once more on its feet with largest gross in history, a gain of 5.4% over 1911. Operating statistics tell a story of economic achievement, reflecting great credit upon President Willard, who was a disciple of James J. Hill. Transportation expenses consumed only \$35.50 of every \$100 gross against \$37.20 in 1911.

Bethlehem Steel.—†DIVIDEND PROSPECTS—Stated that directors in January or February will order disbursement at rate of 4% on pref. stock, possibly 5%. Earnings on pref. were 17.9% in 1910, 18.2% in 1911, with a further increase this yr.—*Operations at practically full capacity most of 1912, nevertheless unfilled business shows a considerable gain. Probable tariff reduction seems to be the only unfavorable factor.

Brooklyn Rapid Transit.—*FINANCIAL POSITION—In 1909, Public Service Commission estimated physical value of property \$103,216,789. Since then \$1,500,000 surplus has been spent for improvements, making security now behind Co.'s first and refunding 4% bonds \$104,716,789. These bonds are convertible into stock at par.—*Co. will earn this yr. 9 1/2% on stock. For 5 mos. ending Oct., gross receipts increased 3%; gain in net over 5%. Physical condition of property was never better and is steadily improving. Banking authorities predict 6% divs. within 6 mos. Co. will order 600 new steel side door cars as soon as operating contracts for subway are signed; 100 stepless cars are to be delivered for surface lines by Feb.

Brooklyn Union Gas.—*EARNINGS—Earnings running over 10% yrly. Regular quarterly div. 1 1/2%, and extra div. 1%, payable Jan. 2, to holders of record Dec. 14.

California Petroleum.—*FIRST DIVIDENDS 1 1/4% quarterly on com. and 1 3/4% on pref., with \$12,000,000 pref. outstanding and \$13,500,000 com. The pref. in addition to 7% div., shares equally with com. in divs. declared in any yr. after com. has received 7%. This gives the pref. an important speculative feature. Co. is constantly increasing its output of oil.

Canadian Pacific.—*NEW RIGHTS on \$60,000,000 additional com. stock authorized, at \$175 per share on a basis of 30% of present holdings. Rights expire Feb. 13, 1913. Payments in five instalments of 20% each. This is the ninth distribution of this nature since 1902 and far the most valuable.

Central Leather.—*PROSPECTS.—Gross sales 1912 will probably exceed \$60,

000,000 against \$53,000,000 last yr. Prices have advanced 30% since Jan. 1. Co. derives large profits from the lumber business, operating 12 saw mills and selling about 200,000,000 feet of hard wood lumber annually. Current yr. has seen a combination of good leather and lumber profits.

Chesapeake & Ohio.—*GOOD EARNINGS—Believed this Co. will not be affected by Union Pacific decision. All the Hawley roads connect with C. & O. but do not compete. In 1912 gross earnings increased 5.2% over 1911; operating expenses increased only 3.8%. Other income increased 16%; fixed charges increased 2%. Strength of Co.'s position is similar to Norfolk & Western.

Chicago & Alton.—*GROSS EARNINGS for the yr. fell off \$56,797, and operating expenses increased \$477,616, with decline of \$535,284 in net. Interest on funded debt was just about earned, but divs. on guaranteed stocks, discount on securities, and divs. on the prior lien stock caused the deficit.

Chicago & Eastern Illinois.—*DECRAESED EARNINGS—Balance for divs. last fisc. yr. was only \$1,057,000, or 31% below previous yr. However, 5% divs. were paid on com., St. Louis & San Francisco being called upon to make up the difference under its guarantee. Ratio of conducting transportation first 6 mos. of 1912, 40.2%, against 34.5% preceding 6 mos., owing to floods and severe winter. Gross revenues were reduced by coal strike. Regular quarterly div. 1 1/4% on pref. payable Jan. 2 to holders of record Dec. 17; also 1 1/2% on Frisco Railroad C. & E. I. pref. stock trust certificates and semi-annual 5% on com. stock trust certificates.

Chicago & Great Western.—*IMPROVED EARNINGS—For quarter ending Sept. gross increased \$208,000, of which 45% was added to operating income. Co. is well under way toward recovery from severe setback received last winter. On the basis of 3 mos. showing, road will earn surplus over charges of \$1,350,000 for the yr., with about \$130,000 other income. Last yr.'s surplus was only \$183,609, and 1911 \$767,907.

Chicago, Milwaukee & St. Paul.—*GOOD EARNINGS—Four mos. ending Oct. St. Paul and Puget Sound saved over 80% of increase in gross for net. Management has authorized addition of 10,000 freight cars, of which 9,360 will be built at Co.'s own shop at rate of 780 monthly. No new financing necessary. Full 5% div. on the com. was earned by Nov. 1, in 1-3 of fisc. yr. All net earnings remainder of the yr. will be velvet.

Chicago Pneumatic Tool.—*EARNINGS for 1912 about 12% on stock. Director says it is not likely that present div. of 4% will be increased, as growth of business necessitates large expenditures.

Chicago Railways.—*EARNINGS since summer have increased almost 10%, against normal incr. for the season of 6 to 7%. Physical condition of property now good, with

12 miles new construction required annually. Expected that eventually one Co. will control all surface and elevated lines within city limits and several outside.

Colorado Fuel & Iron.—†GROWTH OF COMPANY. Co. is making good progress in building up earnings. for com. stock. During the past five yrs. surplus earnings. above the 8% a yr. on the pref. have been about \$5,000,000, all put back into the business in property additions, reduction of rents, or working capital.—*Accrued preferred divs. are 75%. Decision to continue the corporation without financial readjustment reflects confidence of Rockefeller ownership. Working capital is now \$19,130,000, equaling 56% of the entire outstanding capital stock.

Colorado & Southern.—*DIVIDEND REDUCTION—1912 earnings. only 2.6% on com.; 5.2% 1911; 7.3% 1910. Operating expenses 68.88% of gross against 65.30% previous yr. Proportion of gross needed for fixed charges 62.57% against 49.99% 1911. Surplus for divs. 3 mos. ending Sept. \$460,500 against \$678,400 previous yr. 1% div. on com. payable Dec. 31; last preceding div. 2% Dec. 30, 1911.

Consolidated Gas.—(See N. Y. Edison.)

Corn Products.—*OVER PRODUCTION—Annual report will make only a fair comparison with last yr. Capacity is 40% greater than consumption justifies. Co. wants to sell its Waukegan and Davenport plants.

Denver & Rio Grande.—*IMPROVED CONDITIONS—Cumulative increase in earnings. as result of improvements to property, with decreasing operating expenses. Surplus over all charges Oct. \$323,000, against \$21,000 1911. Both this Co. and Western Pacific are taking on new life as an effect of change in management.

Distillers.—*COMPETITION—Co. is sharply fighting the independents, sacrificing profits, so that it is not now earning its 2% unless its subsidiary, U. S. Industrial Alcohol, distributes some of its earnings. in divs.

Erie.—†CONTINUED BETTERMENTS—in proportion to size Co. is doing more improvements and expansion than any other system, including 241 miles double tracking. Previous improvements comprise enlargement of N. Y. Terminal from two tracks to six and several main line cut-offs to reduce grades, all paid out of surplus earnings. Capital available for improvements now larger than in previous 14 yrs., since reorganization of 1895.

Federal Mining & Smelting.—*NEW PROPERTIES—First two mos. of new fisc. yr. indicate annual profit of perhaps \$500,000 against \$146,000 last yr. Increase due to larger income from newly acquired properties and better prices for metal. Oct earnings. at rate of 11% on com. after 6% pref. div. Pref. is 7% cumulative, and in arrears about 1%. Co. has acquired 7-10ths interest in

Cleveland group of mines which are expected to net profits of \$50,000 to \$100,000 a mo. next 2 or 3 yrs.

General Electric.—*NEW BUSINESS. Orders 20% over last yr.; probable net \$11,000,000 1912 against \$10,563,000 1911. Co. now getting share of business from automobile industry, making motors and dynamos for lighting and self-starting. Sales to a single Co. for this purpose \$1,000,000 1912—another important outlet for electrical equipment. Now earning over 11% on stock.

General Motors.—*GROWING BUSINESS—In 3½ mos. of new fisc. yr. sales are 25% over last yr., which would mean 55,000 cars annually or gross business of \$75,000,000 to \$80,000,000, against \$65,000,000 last yr.

B. F. Goodrich.—*INCREASED EARNINGS—All forms of rubber goods running far ahead of last yr., in some departments 25%. Co. bought crude rubber heavily around \$1 early in the yr.

Goodyear Tire & Rubber.—*PROSPECTS—Yr. ending Oct. net profits \$3,001,294, surplus \$1,856,000, quick assets \$8,500,000, charged depreciation \$555,000—§Pres. Seiberling estimates next yr.'s business \$40,000,000; considered highly conservative.

Great Northern.—*RIGHTS AND EARNINGS—\$21,000,000 new stock offered stockholders at par, 1 share of new stock to every 10 of old. Books close Dec. 14. Rights opened \$3 per share.—*Incr. in gross earnings. truly marvelous. Although over half the added gross has gone into operating expenses, estimated Co. earned 5.7% on stock in 4 mos. ending Oct. Full 7% div. probably earned first 3 mos. of fisc. yr. and over 12% predicted for full yr. Large earnings. due to big wheat crop, large ore shipments of U. S. Steel Co. and good general business.

Great Northern Ore.—*DIVIDENDS—Declaration of 50c. div. is not regular and has no bearing on future disbursements. Total divs. since beginning of ore trust \$5.50. Net earnings above reasonable cash reserve will be distributed to stockholders.

Great Northern Paper.—*INCREASED 10% div expected 1913, against 8% 1912 and no div. 1907 to 1910. Extras now distributed are recompense for period of suspension. Capacity now 600 tons daily, 10% over last yr.

Guggenheim Exploration.—*BOOK on \$25 per basis, value per share now figured about \$71.57. If Utah Copper increases divs. to \$6 as now planned, this would further increase Guggenheim profits, as it owns 404,504 shares of Utah stock.

Harriman Lines.—*COURT DECISION—Crux of decision is that U. P. must dispose of its \$126,000,000 So. P. stock, of which \$108,000,000 is pledged under mortg. securing \$100,000,000 Ore. Short Line bonds. Harriman apparently had in mind possibility of such decision, as provision was made "that

the Co. is entitled to withdraw any particular collateral on deposit, at the rates at which the bonds were originally issued against the same, and substitute therefor cash or stocks or bonds of any other corporation operating railroad." Value of substituted collateral to be determined by appraisal. Total of all securities pledged under mortg. is \$156,904,800, but so far as public is interested, this secures only \$45,000,000 of the \$100,000,000 bonds, as U. P. has in treasury \$55,000,000 of the issue unpledged. If the \$108,000,000 So. P. stock were withdrawn, there would remain behind the bonds \$48,904,800 collateral. Also U. P. has unpledged in treasury \$24,073,200 securities of auxiliary Cos. and \$144,720,585 other securities. Thus it will be simple matter for U. P. to shake free from all lien the So. P. stock and dispose of it without disturbing present financial structure.—*Only one recent yr., when U. P. would have been seriously pushed to pay 10% divs. without aid of So. P.—fisc. yr. ending June, 1912, when road suffered from poor crops, rate reduction, incr. taxes, new operating laws, severe winter, spring flood, and shopmen's strike. Average U. P. earnings, 6 yrs. over 13%, and current yr. will unquestionably exceed 13%.—*U. P. annual report shows current assets \$51,619,259 over current and deferred liabilities; demand and time loans \$44,835,693; cash \$7,117,052; increase of \$13,622,196 to property investment; incr. of \$14,743,625 in funded debt through sale of Oregon-Washington Refunding bonds; reduction of demand loans to Southern Pacific to \$12,000,000; increase of \$7,630,838 in profit and loss surplus to total of \$194,545,768. Operating ratio 57.65% against 54.94% 1911 and 51.01% in 1910. Decrease in ton mile rate to 0.989 of a cent, lowest in several yrs.

Illinois Central.—*PROSPECTS.—Co. rapidly recovering from heavy losses in 1912. Has paid regular divs. 61 yrs., but in 1912 failed to earn divs. by \$4,184,272, owing to re-action in trade, strike, floods, and bad winter. Deficit made up from accumulated surplus. Business now good, with gain of \$1,589,000 in Oct. gross, but incr. in net first 4 mos. fisc. yr. only \$196,056.

Inter. Agricultural.—*EARNINGS.—Yr. ending June 1912 earned 6% on com. Co. will benefit by expansion of fertilizer business. Most valuable properties are phosphate lands in Florida and Tennessee containing over 50,000,000 tons, estimated sufficient for 100 yrs. at present rate of production.

Inter. & Great Northern.—*CHANGE OF CONTROL.—If deal for control of I. & G. N. by Iron Mountain is consummated it will be done through exchange of securities of the I. M. for pref. and com. stock of I. & G. N. (See Mo. Pacific.)

Interborough Rapid Transit.—*SUBWAYS.—Only minor details still to be settled on contracts for building new subways. Expected work will begin by Jan. 1. Gross receipts Nov. \$128,000 over last yr. Yr. ending June last increased \$1,479,000; new yr. to date makes still better showing.

International Harvester.—*CONTRACTS.—Co. made 29,000 contracts with commission agents this yr. besides contracts with retail dealers. Free service bureau will spend \$5,000,000, if necessary, to educate farmers.

International Nickel.—*BUSINESS CONDITIONS.—Co. makes 32,000,000 lbs. nickel yrly., of which 50% is used in armor plate and munitions of war, remainder for coinage and commercial uses. Last yr., div. 5% on old \$11,582,000 com.; in Sept., 2% on new \$38,000,000 outstanding com. Growing demand for nickel, particularly for commercial uses.

International Paper.—*D I V I D E N D PROSPECTS.—Pref. has received only 2% divs. for 4 yrs., while balance for pref. has risen from 3% to about 10% for 1912. Div. has not been advanced because of bank loans between \$4,000,000 and \$5,000,000. Until this debt is funded or converted, probably no change in div. rate. This yr., between \$1,500,000 and \$1,800,000 will be available for new construction or depreciation.

International Smelting and Refining.—†ENLARGEMENTS.—Over 12% earned on stock indicated for 1912 against 12.2% 1911, 12% 1910. Heavy new construction in 1912. Enlargement at Raritan refinery when completed will give capacity of 400,000,000 lbs. copper against 275,000,000 lbs. 1910. Lead smelting business is proving profitable.

International Steam Pump.—†EARNING POWER.—Pref. on strong investment basis, having paid 6% since organization in 1899. Balance for com. averages 2% past 3 or 4 yrs., but fisc. yr. ending Sept. showed deficit after charges and divs. of \$169,415.

Lehigh Valley.—*PHYSICAL APPRAISAL.—First 4 mos. of fisc. yr. Co. earned balance equivalent to yearly rate of almost 19% on stock, against 14.5% in corresponding part of last yr. Probable that present fisc. yr. in full will yield 15%. First 3 mos. gross earnings, incr. \$1,461,200, of which \$513,700 went into heavier maintenance expenditures and \$84,400 into greater transportation expenses.—*For a yr. past Co. has been making physical valuation of property (by outside engineering and accounting authorities), which shows net value of \$181,000,000 or \$298 per \$100 par value of stock.

Massachusetts Electric.—*EARNINGS.—Yr. ending Sept. net income \$1,100,316; interest on notes \$166,500, leaving 4.54% for pref. stock. After pref. div. of 4%, balance for com. 78%.

Mexican Petroleum.—*E A R N I N G S.—Com. stock, now paying 4%, will probably go on 6% basis in 1913. Last report shows earnings, 9% and they are increasing.

Missouri, Kansas & Texas.—*CURRENT EARNINGS.—Last fisc. yr. Co. earned only \$17,000 over fixed charges, but returns quarter ending Sept., 1912, show incr. of 9 1/4%. Ratio of working expenses and taxes to gross for quarter was 73.1% against 80.6% last yr.

and operating income incr. 51%. Co. is now earnings at rate of 3.5 yrly. on com., after allowing pref. div.

Missouri Pacific.—*OPTION ON INTERNAT'L & GT. NORTHERN.—For purchase of control. This would furnish Mo. P. direct outlet to Gulf and good route into Mexico via International Railways at Laredo. Mo. P.'s functions as holding Co. are as important from future earnings standpoint as its own operations.—*Surplus earnings Mo. P. 4 mos. \$596,000 against deficit of \$1,498,000 last yr. Oct gross incr. 10.8%, with 70% of gain saved for net.

National Biscuit.—*BIG BUSINESS.—Incr. in gross sales past 4 mos. over 15% Chances considered better than even that extra 1% or 2% will soon be declared on com. Loose-Wiles competition does not seem to be at expense of National Biscuit. There seems to be room for both Cos.

New England Telephone & Telegraph.—*PROSPECT.—This fisc. yr. gain in total stations 35,000 or 40,000, making aggregate about 460,000. Owing to \$4,000,000 stock issue and sale of bonds, share profits will be less than 1911, although well in excess of the 7% div. Co. is preparing to spend \$500,000 for new Back Bay exchange.

N. Y. Air Brake.—*DIVIDENDS RESUMED.—Quarterly div. of 1½% puts stock on 6% basis. First div. since 1911. Oct. earnings exceeded 1911 by 116%. Profits so far this yr. more than enough to wipe out deficit from last yr. and to provide for divs. Largest volume of unfilled business on the books in history of Co.

N. Y. Central.—*INCREASED EXPENSES.—Management feels no great concern over decline of \$1,267,000 in net earnings in 10 mos., in face of somewhat higher fixed charges. Operating expenses and taxes incr. so far this yr. over \$5,300,000 and gross revenue 10 mos. incr. \$4,162,000.

N. Y. Edison.—*1912 EARNINGS will equal 19% on stock against 17½% 1911, best previous yr. With over \$9,500,000 available for divs. all in possession of Consolidated Gas, Edison paid only \$3,000,000, providing only ½ of Con. Gas \$6,000,000 1912 div. requirements. On Con. Gas investment of less than \$40,000,000 in Edison, 1912 earnings were about 25%.

N. Y. New Haven & Hartford.—*GROWING EARNINGS.—Gross earnings Nov. gained 9.5%; 5mos. 10%; net for 4 mos. incr. 20.—*At present rate earnings for yr. will be over 11%, apparently assuring continuance of 8% div. Issue of \$40,000,000 1-yr. notes probably provides for yr.'s capital needs in addition to refunding \$30,000,000 maturing notes.—*Traffic agreement with Grand Trunk not yet signed by that Co., owing to violent popular opposition, agreement may be allowed to lapse. Pres. Mellen says: "You ask me whether I will accept a parallel track proposition if Mr. Chamberlain makes it to me. I don't care whether the Grand Trunk or any

other R. R. runs parallel tracks in New England as long as they do not interfere with my facilities or my terminals. I want them to keep away from those."—*Dec. 1, Co. had \$26,000,000 cash on hand. It is rule to keep \$15,000,000.

N. Y. Railways.—*INCOME BOND DIVIDEND.—Since June 30 Co. has earned at rate of almost 5% on the \$31,000,000 5% inc. and adj. bonds. First 6 mos. interest declaration of ¾% was made on these bonds; second 6 mos., probably 2½%. Officials do not expect to pay full 5% on these bonds next yr. From sale of Central Park, North and East River, N. Y. Ry. will receive \$1,673,000. Larger return on real estate holdings of \$7,000,000 expected next yr. When Metropolitan estate, now in receiver's hands, is liquidated, N. Y. Ry. will receive about \$3,000,000 from this settlement.

Northern Pacific.—*EARNINGS.—Freight receipts Oct. \$5,956,000, incr. of \$1,036,000 over 1911. Co. was able to handle traffic because of expenditures on roadbed and equipment early in the season and still in progress. Against incr. of \$2,859,000 in gross for 4 mos., transportation expenditures rose \$964,000 and total operating expenses \$1,979,000; gain for net \$800,000 after setting aside \$78,000 more for taxes than last yr. Nov. car loadings over 10,000 cars more than last yr.

Pacific Coast.—*EARNINGS.—3 mos. ending Sept. gross incr. \$56,472, operating expenses incr. \$33,736, net. incr. \$22,736.

Pacific Gas & Electric.—*EXTENT OF BUSINESS.—Average investor does not appreciate gigantic proportions of this corporation. Net earnings 1911 were greater than Denver & R. G., St. Louis & St. W., or Mo., Kansas & Texas. If the distributing system were in Illinois, it would extend from St. Louis to Chicago and from Indiana to the Mississippi. System serves 1,350,000 people. Quarterly div. \$1.25 on com. payable Jan. 15 to stock of record Dec. 14.—*Understood Electric Investment Corporation, recently organized, has acquired 10,000 shares P. G. & E. com.

Pere Marquette.—*BETTER EARNINGS.—3 mos. ending Oct. Co. earned surplus of \$46,475, and incr. maintenance charges \$139,221, showing increased earning power of \$185,696. However, road showed deficit each mo. from Jan. to July, 1912.

Philadelphia Co.—*NEW PREFERRED.—Apr. 29 last authorized capital stock was incr. from \$48,400,000 to \$73,400,000, incr. being 500,000 shares 6% cumulative pref. \$50 par. Holders of pref. will have privilege of exchanging for equal amount of new 6% cumulative pref. on payment of \$2.50 a share after Jan. 1.

Pittsburgh Coal.—*ACCrued DIVIDENDS.—Nearly 38% accrued on the \$27,000,000 pref. stock. Understood plan has been formed to pay this off by issue of 5% debenture bonds. Current earnings about 12% on pref. against 5.1% last yr.

Pullman Co.—*BUSINESS.—Freight car dept. working 75% capacity, with 14,000 cars booked or enough for 7 or 8 mos.; passenger dept. operating full capacity with booking beyond midsummer. Steel Cos. behind on material.

Queen & Crescent (Cincinnati, New Orleans & Texas Pac.).—*ANNUAL REPORT.—Last fisc. yr. profit and loss incr. \$919,155 after 5% on pref. and 6% regular and 5% extra on com. Transportation expenses incr. 3.8% over preceding yr., due largely to higher wages.

Ry. Steel Spring.—*GOOD BUSINESS.—The 12 plants are operating at capacity with orders ahead to Apr. Net 1912 should equal 5% on com. against 0.29% last yr. No com. div. since 1908 when 3% was paid. Liberal depreciation in 1910 had its effect on working capital, and has apparently started Co. on an upward swing.

Reading.—*ECONOMICAL OPERATION.—First 4 mos. fisc. yr. Co. earned within \$1,000,000 of full yr.'s divs. and gained 175% in surplus. Exact incr. was \$3,786,342, of which Ry. contributed about \$2,000,000 and Coal & Iron Co., \$1,800,000. A \$2,400,000 incr. in gross was handled with only \$400,000 larger expenses.

Republic Iron & Steel.—*IMPROVED EARNINGS.—When organized, Co. was almost entirely iron manufacturer, but capacity now 1,000,000 tons pig iron and 900,000 finished steel. Operating full capacity. About \$20,000,000 has been expended on properties. Pref. divs. were suspended last spring, but resumed beginning first of yr. Now showing good surplus for com. stock. Accrued divs. on pref. 5 1/4%.

Rock Island Co.—*DIVIDENDS.—C. R. I. & P. Ry. will change old system of divs. and will declare regular 1 1/4% quarterly. This will not change total yrly. disbursements.

Sears - Roebuck.—*BIG INCREASE.—Gain in gross business for 1912 probably 25%. Past 3 yrs. cost of doing business has varied from 87% to 89%. Gross for yr. expected to be \$80,000,000. Co. this yr. retired \$500,000 7% pref. leaving \$8,000,000 outstanding and reducing div. charges \$35,000. Expects to retire some pref. each yr. out of earnings.

Sealshipt Oyster.—*BAD REPORT.—More deplorable statement than for yr. ending Sept. seldom seen. Operating and selling expenses were \$239,000 above gross earnings. Net loss of \$222,000 compared with surplus for 17 mos. ending Sept., 1911, of \$553,315. Sales dept. now reorganized and waste has been eliminated, with general house cleaning.

Sloss Sheffield.—*BUSINESS PROSPECTS.—Co. owns 7 large blast furnaces, capacity 400,000 tons pig iron yearly, 64,000 acres coal lands, 48,000 acres ore lands, all in Alabama. Present yr. Co. will earn pref. divs. and small surplus over. Increasing demand indicated for 1913.

St. Joseph & Grand Island.—*POOR EARNINGS.—Fisc. yr. ending June, net

earnings. decr. \$47,150, deficit incr. \$88,289, maintenance of way decr. \$89,192, maintenance of equipment incr. \$39,386 Gross decr. \$158,445.

St. Louis & San Francisco.—†NEW LINE.—As result of aggressive expansion for several yrs., Frisco is now one of the most extensive systems in the West. Expansion now seems completed, with operation of New Orleans, Texas & Mexico, 985 miles from New Orleans along the Gulf into Texas. It has cost about \$30,000,000, practically all represented by mortgage bonds in public's hands. Fisc. yr. ending June, best yr. of operation, showed net income \$904,244 and deficit of \$903,969 after charges. Stated that 1/2 the deficit occurred last 2 mos. of yr. owing to floods. Current gross earnings, increasing about 22%.—*Surplus for Frisco stock 4 mos. ending Oct. incr. \$400,000 over last yr.

St. Louis So. Western.—*ECONOMICAL OPERATION.—Fast 4 yrs. shows steady development and healthy growth. 3 mos. ending Sept. showed incr. in net of 30% and gain of 66% in balance for divs. Co. is fast approaching position where holders of com. may receive returns.

Southern Pacific.—(See Harriman Lines.)

Tennessee Copper.—*GROWING EARNINGS.—Expected Xmas div. of at least \$1, probably \$1.50 a share. This would bring divs. to high record for 10 yrs. Net earnings 1912 between \$5 and \$6 a share.

Tobacco Products.—*GOOD BUSINESS.—Sales in Nov. showed about 25% incr. over last yr. Divs. on 7% pref. become cumulative after Jan. 1. Net earnings of Surbrug and Melachrino Cos. alone yr. ending Oct. were nearly 3 times div. requirements on \$5,000,000 Tobacco Products pref. outstanding.—§Official says divs. will be easily earned for the stock and payments begin first quarter 1913.

Toledo Rys. & Light.—*REORGANIZATION.—Stockholders' Protective Committee recommends that holders accept plan of reorganization and deposit stock with N. Y. Trust Co., with draft for \$7.50 a share, receiving therefor voting trust certificates for \$7.50 pref. stock and \$43 com. stock of new Co. for each share of old stock. Transfer to management of H. L. Doherty Co. has been effected.

Toledo, St. L. & Western.—*SMALL EARNINGS.—Yr. ending June deficit after charges \$55,928 against surplus of \$72,797 in 1911. Divs. of only 2% on pref. were charged out of income. Since Dec., 1911, no divs. and resumption looks far away. Co. owns \$6,480,000 Alton pref. and \$14,420,000 com., deposited as collateral for T. St. L. & W. bonds due 1917. As Alton pays no divs., the investment is carried at a dead loss.. Without the Alton, T. St. L. & W. would earn interest charges with comfortable margin. Management is confident Alton will in a few yrs. resume divs., and more than justify the invest-

ment. T. St. L. & W. working liabilities exceed net assets by \$550,000 against \$150,000 preceding year.—*Co. owns half interest in Detroit & Toledo Shore Line, worth approximately \$150 a share. On this unpledged stock \$800,000 or \$1,000,000 might be borrowed if needed.

Union Bag & Paper.—*PREF. DIV. PASSED.—Issue is 7% cumulative, has been receiving 4%. Owing to drastic competition Co. has been selling its product close to cost of production. Capacity 18,000,000 bags daily. Co. heavily overcapitalized, bonds and stock aggregating \$30,000,000, and has rivals with smaller proportioned capitalization. Accrued divs. on pref. 20%. No divs. on com. during 13 yrs. existence of Co. Holdings of pool in com. stock formed last spring believed to be now liquidated.

United Fruit.—*ANNUAL REPORT.—Fisc. yr. ending Sept. net from fruit business \$2,565,428, which was more than 8% of divs. paid, but smallest balance since 1905. This short-coming made up by miscellaneous income of \$836,496, exceeded but three times in the past. Total earnings. 14% on stock. Co. holds 852,000 acres of land, incr. for yr. of 348,000 acres; book value \$12,153,000 or \$14 an acre, a very low valuation. During 13 yrs. of operation Co. has paid 4 stock divs. of 10% each in addition to regular divs. and \$26,000,000 has been turned back into property or additional working capital. Current yr. miscellaneous income will probably reach \$1,000,000.

United Light & Rys.—*SHOWING FOR COMMON.—4 mos. ending Oct. surplus for com. stock was 3.19%. Sub-Cos. increased gross earnings. 10%, net 14%, surplus over charges 32%. Regular quarterly div. 34% on com. payable Dec. 31, books closed Dec. 21.

United R. Rs. of San Francisco.—*GROWTH OF COMPANY.—Yr. ending Sept. demonstrates Co.'s ability to pay charges on \$2,350,000 6% 5-yr. notes, for issue of which permission has been asked of Cal. R. R. Commission. Panama exposition in 1915 will increase earnings. and population is growing rapidly.

U. S. Cast Iron Pipe.—*BUSINESS.—Dimmick plant purchased a yr. ago almost entirely rebuilt and all plants now running full capacity. No immediate change in divs.

U. S. Motor.—*REORGANIZATION.—95% of indebtedness deposited with Reorganization Committee, but payments of assessments on the stock are small. Several large holders aggregating 50,000 shares, and many small owners, will not pay.

Union Pacific.—(See Harriman Lines.)

U. S. Realty & Improvement.—*NOR-MAL BUSINESS.—Earnings, quarter ending Oct. slightly better than 1910. Large amount of business pending. Union Terminal at Kansas City and Biltmore Hotel at New York, aggregate cost \$9,000,000, will be finished within a yr. Co. has now less vacant space

in office buildings than at end of fisc. yr. last Apr.

U. S. Rubber.—*NEW FINANCING.—Gross sales 7 mos. incr. 30% over last yr.—*Understood that, including undivided profits of subsidiaries Co. is earning at rate of 16% on present outstanding com., which was increased this yr. by 20% stock div. Directors authorize retirement of 2nd pref. on basis of 3 shares first pref. for 4 of 2nd pref. General Rubber Co., subsidiary of U. S. Rubber, will incr. stock from \$5,000,000 to total of \$10,000,000 to cover investments in the far East. All purchases of crude rubber are handled by Gen. Rubber Co.—*In offering for par of U. S. R. pref. for Rubber Goods pref. Co. plans consolidation of this sub-Co. into itself. By accepting offer Rubber Goods shareholders get 8% divs. in place of present 7%.

U. S. Steel.—*CURRENT EARNINGS.—Earnings, fourth quarter may exceed \$35,000,000, which would give surplus at rate of \$35,000,000 yrly. above charges and divs. Trade expects first quarter 1915 to exceed \$40,000,000. Co. has \$80,000,000 cash on hand.—*Should Court decide against Co. a partial dissolution might be beneficial, but if sub-Cos. are split up, result would be disastrous.

Vulcan Detinning.—*ACCRUED DIVIDENDS.—Over \$500,000 will be received from American Can Co. Accumulated divs. on pref. now 21%, or \$315,000. Thought probable back divs. may be paid soon as, with this yr.'s operations, surplus after payment would still be about \$1,000,000. (See American Can.)

Wabash.—*GOOD GROSS EARNINGS.—5 mos. ending Nov. gross incr. 10.7% over last yr. Estimated earnings, current fisc. yr. in full, about \$31,300,000 gross, against \$28,354,000 last yr. Improved business has enabled Co. to meet obligations including interest on uncompleted improvements. Operations have been handicapped by improvement work, with 60 or 70 work trains on the line and 1,500 cars in work service.

Western Electric.—*AUTOMATIC SWITCHBOARD.—Co. has perfected automatic switchboard which will enable a telephone operator to handle 500 calls an hour instead of 150 to 180 as now. French Government has placed large order with ultimate purpose of installing auto-mechanical systems throughout France, with saving of about \$200,000 yrly.

Westinghouse Electric.—*PROSPECTS.—Gross sales last 3 mos. at rate of \$42,000,000 yrly. against \$38,119,312 in 1911, best previous yr. Shipments 8 mos. 12% to 15% over last yr.; but full yr. may show that most of gross gain has been consumed in higher cost of production and slightly lower selling price. Further incr. in 4% common divs. during 1913 is uncertain.

Wheeling & Lake Erie.—*NEW EQUIPMENT.—Co. will probably expend \$4,000,000

to \$5,000,000 for freight equipment next 12 mos., including 3,500 cars and 20 or more heavy locomotives. Car hire debit is now \$60,000 monthly, most of which will be eliminated by this purchase. However, consent of Judge Day will be necessary for this financing.

Willys-Overland.—***NEW STOCK.**—Capital stock increased from \$6,000,000 to \$25,000,000, of which \$5,000,000 is 7% cumulative, balance com.—†Co. is one of 3 largest automobile manufacturers in U. S. For fisc.

yr. ending June, 1913, contracts already closed for \$40,000,000, against \$23,570,825, 1912. Consolidated net earnings at average of 49% yrly. on pref. for 3 yrs. and 2 mos. ending Sept., 1912. Net for current yr. estimated by Pres. Willys at \$5,000,000, equalling par value of new pref. stock.

F. W. Woolworth.—***GROWING BUSINESS.**—11 mos., to Nov., gross sales 15% over last yr. Probable balance for com. 10% after 7% on pref. Com. divs. 4% were begun this yr. Co. now has 600 stores.

Mining Stocks

This section of the Investment Digest includes some of the more important properties, in regard to which authentic and trustworthy information has appeared during the month.

Amalgamated-Anaconda.—†A large interest says—"The decline in Amal. has been due to over-extended ownership of the shares in commission houses, and has no relationship to earnings, or prospects for the future. Amal. properties were never in such good physical condition as at the present time, and earnings were never larger. Mr. Ryan stated, when the div. was increased from \$4 to \$6, that he never expected to again see the Amal. div. below the 6% rate. "I consider Amalgamated a prospective \$125 stock. The metal market is in a very satisfactory condition, and I see no justification for any fear of a decline in metal prices, a fear that has probably been born by reason of the decline in the security market."

Braden.—*Estimated that Teniente tunnel No. 1 will prove up at least 40,000,000 tons of ore, and Co.'s officers believe that property is a 75,000,000 to 100,000,000 ton proposition, with average of at least 2½% copper per contents. Braden has \$7,000,000 convertible bonds outstanding and \$6,000,000 stock. With bonds unconverted, Braden can earn on a 13c. metal market, and 40,000,000 lbs. per an., about \$2 a share, and \$1 a share with bonds converted. Each advance of 1c. a lb. increases earnings 30c. a share.* Cable advices state: In the Teniente mine an extensive deposit has been uncovered, averaging 5.35% copper, compared with ore mined recently of 2.70%. In early part of next yr., Co. will have its full equipment in operation, when engineers and officers claim that 45,000,000 to 50,000,000 lbs. a yr. will be produced.

Calumet & Arizona.—†During Oct., Co. made a net profit of \$450,000. The earnings for some little time have been averaging between \$450,000 and \$500,000 a mo. The

cost of production is said to be about 7c. per lb. The underground work is proving ore bodies to be larger and more important than supposed. Co. is now earning between \$5,400,000 and \$6,000,000 per an., or from \$8.60 to \$9.50 a share.—*Directors have declared a quarterly div. of \$1.25 a share, payable Dec. 23. Books close Dec. 6, reopen Dec. 24. The output during Nov. amounted to 4,918,000 lbs. of blister copper, compared with 4,404,000 lbs. in Oct., and 4,390,000 lbs. in Nov. a yr. ago.

Calumet & Hecla.—*Estimated production of Co. and subsidiary cos. for Nov. totalled 10,680,968 lbs. compared with 11,089,013 lbs. in Oct. Directors declared a quarterly div. of \$12 per share, payable Dec. 20, to stock of record Nov. 22. Including the div. just declared, stockholders will have received \$120,050,000 in divs. since formation of the Co. Final plans are being perfected for working the mill tailings, which for nearly half a century have poured into Torch Lake as waste. The deposits are estimated at 30,000,000 tons, containing 480,000,000 lbs. of copper—assaying 16 lbs. to the ton on an average. Of this copper, however, only about 150,000,000 lbs. is recoverable. The cost will be about 9c. a lb., leaving a profit of 17c. copper of \$12,000,000.

Coppermines Co.—*Rumors of a probable merging of the Giroux Co. and the Coppermines Co. The properties of the Giroux Co. have recently been given a thorough sampling, which tends to strengthen the theory of merging the two properties. Coppermines Co. owns a large territory along the mineral belt. During past summer Co. shipped a considerable tonnage of high-grade sulphide ore with very satisfactory results. The results of shipments for the quarter ending Sept. 30 showed a net profit of \$26,000. Gross yield

of ore for the quarter was more than \$59,000. Aside from its undeveloped ores, Co. owns valuable water rights in Steptoe valley, which the Giroux Co. could use to good advantage.

Chino.—*Judging from operations thus far, the present concentrator will develop capacity of 7,000 tons per day, which should result in over 70,000,000 lbs. of copper per an. If results are realized, and cost of 6½c. maintained, earnings would be \$4.40 per share even at 12c. copper, and Co. could pay \$4 per share. For each cent advance in metal on above figures, earnings should increase 80c. per share, which represents at present price (17½c.) \$9 per share. Co. should be able to pay \$4 per share, in almost any kind of a market. Production for Nov. was 4,117,020 lbs., half a million lbs. above the largest previous mo.'s output. Beginning 1912 with a mo. production of 1,000,000 lbs., Chino has each month increased output, and for 11 mos. of the yr. has now produced 25,174,000 lbs. With entire plant fully tuned up, there is every reason to believe that Co. will show a mo. production of close to 6,000,000 lbs. When this point is reached, the Co. should easily earn over 10% on the present market price of the stock, with copper selling at 13c. a lb.

Goldfield Consolidated.—***PROSPECTS**—Pres. Winfield has no idea when divs. may be resumed. "Up to two mos. ago we thought our copper deposit in the Grizzly Bear territory might develop into a copper property, but subsequently we have thought differently. I do not consider that the end of Goldfield Co. is in sight. It has a good record behind it with disbursements of \$23,000,000, and what other mining Co. can show monthly net earnings in excess of \$200,000?"—*Earnings past five mos. at rate of 75c. a share, but directors want to build up surplus, now about \$200,000 below ordinary minimum of \$1,000,000 reserve. Regular quarterly div. of 30c. was passed. Co. has 380 acres territory, all mineralized.

Granby.—*At the "Hidden Creek" property, development work appears to confirm the most favorable estimates as to quantity of ore. Co. will probably ship copper before close of 1913. Net profits at Grand Forks property, for the 4 mos. ending Oct. 31, have averaged about \$140,000 per mo. On that date Co. had on hand cash and copper amounting to \$1,100,000 over and above all liabilities. For the yr. to date, Co. has smelted 1,073,338 tons from its own mines. During week Co. shipped 452,000 lbs. blister copper to the refinery, which makes 19,742,500 lbs. shipped this yr. to date. Granby should make 22,000,000 lbs. of copper during current yr.

La Rose.—*Oct. production was 240,203 oz., having gross value of \$151,950. Total income, including rentals, etc., was \$161,399. Total expenses aggregated \$64,307, leaving net profit \$97,091.

Nipissing.—*Co. declared usual quarterly div. of 5%, and an extra div. of 2½% payable Jan. 20. Books close Dec. 31 and re-open Jan. 18. The financial statement as of Dec. 7 shows: Cash on hand \$913,441, outstanding shipments \$75,679, ore on hand in process, and bullion on hand at mines \$225,435; total \$1,214,555. Co.'s production in Oct. was valued at \$99,040, while shipments' estimated net value was \$332,640.

Ray Consolidated.—*This yr. up to Sept. 30 last, Co. has produced 25,370,835 lbs. gross of copper at a cost of 10.047c. per lb., resulting in total net earnings of \$1,497,703. †By first quarter of 1913 Co. will be milling between 6,000 and 6,500 tons of ore a day, which, on its recovery of 28 lbs. per ton, will mean 60,000,000 lbs. of copper a yr. It is expected that "Ray" will produce metal at 8½c., which will mean earnings of about \$3 per share on current quotations for metal. *Nov. production was 3,370,000 lbs., compared with 3,582,900 in October.

Utah Copper-Nevada Cons.—†Utah Copper has earning power on its current output, of \$4 a share on 12c. metal, and is now earning between \$11 and \$12 a share. *Nevada Cons. declared usual quarterly div. of 37½c. a share, and an extra div. of 50c. a share. Directors stated, it was declared from surplus account, and should be considered a return of principal, and calls for \$1,000,000, as Nevada has about 2,000,000 shares outstanding. As owner of a half interest in Nevada, the Utah Co. will receive \$500,000, in addition to its regular income from Nevada holdings, so that the "extras" net the Utah shareholders better than 30c. a share. Utah directors hold next quarterly meeting in Feb. and it is expected an extra div. will be declared, as Utah, including equity in Nevada Cons., is earning between \$11 and \$12 a share, and paying at rate of only \$3 per an. The Utah Co. has declared regular div. for the quarter of 75c.

Copper Notes.—*The monthly statement of Copper Prod. Asso., giving production and consumption in the U. S. in Nov., as compared with Oct. last, and with Nov. 1911, together with the stocks on hand at the end of each mo., follow, figures in lbs.:

	Nov. 1912.	Oct. 1912.	Nov. 1911.
Stocks prev. mo.	76,744,964	63,065,587	114,997,642
Production	134,695,440	145,405,453	111,876,601
Total	211,440,404	208,471,040	246,874,243
Domestic deliv.	69,369,795	84,104,734	68,039,776
Exports	55,906,550	47,621,342	67,049,279
Total	125,276,345	131,726,076	135,089,055
Stocks remaining	86,164,059	76,744,964	111,785,188

During ten mos. ended with Sept., according to the "Mining and Engineering World," 141 Am. mines and metallurgical works enriched shareholders to extent of \$82,812,528. This compares with \$71,711,748 by 142 Cos. in 1911, and \$64,304,888 by 128 Cos. in 1910. The 141 Cos. mentioned above have paid divs. totaling \$789,848,550, which is nearly \$70,000,000 in excess of issued capital.



TRADERS DEPARTMENT

SPECULATION : Operations wherein intelligent foresight is employed for the purpose of deriving a profit from price changes.

Advising Other People

**Some Make a Business of It, Others Make It Their Business and
Many Have No Business in It**

By RICHARD D. WYCKOFF

DOWN in Wall Street we all advise each other.

You tell me to buy and I tell you to sell. We both give excellent reasons why, together with sundry facts showing the strength of our position on the bull or the bear side.

In both cases we have nothing to gain and much to lose, for if my advice proves correct you'll forget that I gave it, and if you make money you'll pat yourself on the back and perhaps forget that the lemon you told me about has soured me on the whole proposition.

Nevertheless the intent of both was to do the other a good turn, hoping also for the satisfaction of saying later, "I told you so." It's a sort of financial turkey trot: "Everybody's doing it." Even *Everybody's Magazine* is advising us that thirty-cent beefsteak is the result of our efforts to make money by anticipating fluctuations.

There is also a class of large operators who indulge in "tainted philanthropy," advising us to buy when they wish to sell and *vice versa*. This, of course, is what the merchant does with his hats, shoes and clothing. He advises us to buy and we, knowing he wishes to sell and that we are yielding him a profit, take his advice without any special prejudice. In both cases all is well until the goods prove to be "not as represented." The newspapers,

too, are consciously or unconsciously giving advice to millions throughout the land. In the character of their headings; the prominence given to good or bad news; the subtle suggestion that higher or lower prices may result from this or that development; the inferences between the lines; the out and out touting of certain issues, new and old. All these are forms of advice to others.

Such advice may be had for the modest sum of one, two or three cents. It may have as its motive an honest intention to help the reader. It may be the result of chance or convenience in the display or arrangement of the column. It may arise from gross ignorance of true conditions, or a necessity for economy which makes impossible the purchase of good financial material. Back of it may be a design on the part of someone to unload something on the other fellow. But whatever the cause, the effect is to mould public opinion in a certain direction.

Bank officials, bond dealers and salesmen, stock and bond brokers, all of whom come into direct contact with investors and speculators play an important part in the formation of sentiment. Many banks now issue periodical letters on the money or financial situation.

Banks and trust companies now purchase and sell for their depositors thousands of shares and blocks of bonds which formerly went direct to the brokers. Officials of these institutions

are therefore called upon for advice in questions involving what and when to buy or sell. They advise according to their intelligence and knowledge of the subject.

Stock brokers supply much material to the formation of a bullish or bearish sentiment. Their market letters are more or less widely read and quoted in the newspapers, the extent of their following depending upon the number of letters issued, where and how often quoted, etc.

When it comes to actual buying or selling the broker's function is decisive. A client usually has his mind pretty well made up by the time he arrives at his broker's office, writes a letter or phones. He is on the verge—ready to take the step—and he takes it unless the broker shows him a good reason why he should not.

Then there are various grades of people who make a profession of advising others. All have from a few hundred to a few thousand subscribers and their opinions are frequently passed along with an emphasis depending upon their respective ability to forecast as demonstrated by their past performances. Seldom are the fundamentalists unanimous in their opinions as their figures can be interpreted from so many different angles.

Chart forecasts are more uniform, but one person will often read distribution in a chart while another will see nothing but accumulation.

But the most potent influence in the formation of opinion—the thing that advises the most people *most*—is the action of the market itself. In simple language, the Street is bullish when the market is going up, and bearish when it is declining. That is why manipulators put the market up when they want to sell stocks and depress prices when they want *other* people to sell to *them*. This kind of advice is highly effective, as proven by the number of people who act upon it.

Seriously, this business of giving advice to others is something we all take a deep interest in. And the peculiarity of it is we each think ourselves especially qualified or at least temporarily equipped for the task. How often have we heard others say, "I can figure out just what a

person ought to do, and play it mentally or tell some other fellow and it will be *right*. But the minute I trade myself I lose money; I invariably buy at the top and sell at the bottom."

There is a good reason why this is true of most people. This reason lies in the fact that the one who gives the advice is not influenced by a desire to make money, nor by impatience, nor a tendency to overtrade, nor fear of loss, nor any other obstacle in the path of success.

All of these are very live considerations with the man whose money is at stake. He makes the venture on his friend's or his broker's advice, then starts to worry ("and get a wrinkle"). Often he is almost immediately a point or two to the bad, as a result of the daily or hourly ebb and flow of prices. Chances are he did not buy at 110 when he was told, but waited till it was 114—a price which naturally generated more confidence. A two-point dip frets him, a price of 109 worries him to death, and a margin call prompts him to close out. He may have given the same kind of capital-eating advice to another friend, but he's forgotten that.

Once in court a prominent lawyer was cross-questioning a witness about the purchase of a certain stock in which a heavy loss was alleged. It developed in the testimony that the questioner himself had supplied the tip, whereupon the lawyer turned the tables by saying, "That's not so bad as the American Ice you told me to buy at seventy!"

The average market advices are full of loopholes. When I first came down to the Street, I had an employer who invariably used the following style in giving a bit of advice to a client: "Well, I think the market may go a little higher if nothing happens to give it a setback, but of course you are taking a chance if you buy." Now if any one can make money on that kind of advice, or blame the broker if he goes wrong, he is a good one.

As the majority of people who are advising others know very little about the inner workings of the market and depend upon secondhand tips, newspaper impressions, the state of their livers, etc., for the formation of an opinion, they are scarcely ever willing to put themselves definitely on record, particularly in writ-

ten or printed form. This is why you find, in nearly every market letter, some neatly turned phrase such as the following: "It is better to confine your attention to the railroad stocks, buying only on reactions." "We would buy on the dips and sell on the rallies." There are any number of stereotyped phrases of this kind which might well be card-indexed and used in rotation to avoid brain fag on the part of the advisor.

But we should like to inquire right here, what is meant by a reaction? If Union Pacific advances from 169 to 170, then reacts to 169½, that is a reaction; are we to buy it there? Or are we to buy it on a 5-point reaction following a 10-point rise? Being in search of information, we would really like to know. Otherwise, we might make the mistake of buying it at 169½, see it decline to 165 and then have the advisor say "what did you buy it at that price for; I told you to buy it on a *reaction*?"

Another favorite loophole is: "Buy on a scale down." I once had quite an argument with a professional market guide who made a practice of using this scale-down stuff. I told him numerous people had written to me that they had followed his advice, bought on a scale-down and been ruined. They thought he meant every point down. He meant what they didn't do. There was always a crack for him to squeeze through to avoid responsibility. The truth was he was "in the air" and didn't want to admit it. In one case "buy on a scale-down" would have meant buy for 40 points down and margin the whole lot.

The well-worn phrase so frequently used by brokers, "buy on dips and sell on rallies," is another method of dodging the issue. Here again we should like to have a dip and a rally defined so that we may have some means of measuring the quality of the advice. Otherwise, we are likely to buy on a one-point dip and see the stock go four points against us; then, if we act on instructions, a rally of one point would let us out with a three-point loss, without being able to blame the broker who designed the plot.

"Buy on a weak spot" is another threadbare garment used to clothe the half-naked truth that its author is leaving a loophole for himself. What is a

weak spot? Is it a half, 1, 5 or 10-point dip? We don't know, we want to be posted.

Whenever you see any of these phrases in a market letter, you may be mighty sure that its promulgator is trying to get you to do something by which he will benefit without incurring any responsibility whatever for the advice. Don't let him excuse himself by saying "all advices must necessarily be written thus, as no one knows," for if he doesn't know, he should stop giving advice, that is, if he doesn't know enough to state definitely at what figure to buy or sell, and is not willing to take the consequences, good or bad.

And suppose you have taken all this valued advice; you have bought on a dip—a weak spot—a reaction—and a scale down. You are now primed with stocks, and the only way you can get a profit is to sell. Does the man who told you to do all these weird things come around and tell you where to get off? His next day's letter may be bearish, telling you to "sell on the strong spots," but no strong spots appear, and you ride your line down several points.

The fact is that very few people in the Street have made a serious study of the stock market, and we are not exaggerating in the least when we say that the average man who is operating or doing a brokerage business or employed by a brokerage house, has not sufficient knowledge of the inner workings of the market itself to definitely advise people to buy at certain points, or sell short, or place a stop, or whatever else the situation calls for, in such a way as to assume the responsibility himself and show a profit for the client at the end of the year.

If we are wrong in this, will some one point out half a dozen bankers or brokers or market advisers who give their advices in this way and whose record, as shown by their clients' statements, proves them to be right more than half the time over a long period?

We know of brokerage houses which invariably advise the use of stops, thus providing a means of closing the trade with a small loss if the market goes against the client. This is a big step in the right direction, for the greatest source of trouble to the outsider is the

tendency to let losses run. But there should always be another side—a top as well as a bottom to the advice. A client should never be left in an uncertain position.

There is an impression among many people that a person who is able to advise correctly on the market must necessarily be a millionaire. They can understand why Mr. Belasco can produce the greatest plays in a most finished style, but they never ask why Mr. Belasco does not act. There are many voice teachers who could not sing in concerts to save their lives, proving that a man's voice may sound like a tin horn, yet he may be, nevertheless, a thoroughly competent teacher. In the same way a man engages in the brokerage business and meets success in that line because he understands it thoroughly and is able to render his clients excellent service. He might even be able to guide his clients successfully in their market operations, but his own trading may never have been crowned with profits.

The brokerage business is just as separate and distinct from the business of watching and studying the market as any two lines can be. One of the richest and most successful brokers I know, admits that he has no knowledge of the market and its movements, and that his opinion is valueless. Here is a man who is frank enough to admit it; very few others will.

If brokers as a class are not successful advisors, what can be said of the bank cashier, the statistician, the fundamentalist, the economist; for if a man is any of

these, he is not necessarily qualified to advise.

Admitting that the guiding of others is a most unsatisfactory and usually an utterly thankless task, it should gradually be placed in the hands of those who devote their entire time and attention to the study of the market; who have no commitments themselves; who can profit only by the success of their instructions; and whose record proves that over a period of from one to five years, they can make more for their clients than they lose.

Everybody understands that it is impossible for anyone to make money all the time, but that constant study, practice and experience will better fit a man to specialize in this very difficult field.

Advising as a side line to the brokerage business is a necessary evil which in the course of time should eliminate itself. The tendency should be towards specialization and the education of the client so that after some coaching by those who have undertaken a scientific study of the market, he eventually becomes highly efficient on his own account.

THE MAGAZINE OF WALL STREET has the honor to number among its readers a large group of people who, judging from their own statements, are mastering the intricacies of this line of work and are now able to trade with satisfactory profits at the end of the year. The final solution of this whole problem is the mental independence of the individual operator.

Notes on Office Trading

VIII—Some Trading Principle

[NOTE.—Owing to the destruction, by fire, of the manuscript of the two Notes which, logically, should come next, it is necessary to anticipate the publication of the following.]

THE preceding notes have been devoted, in large measure, to the considerations leading to the decision to make a commitment; in other words, they have described the material which the office trader has to deal with and have indicated the principles upon

which, in my opinion, he should proceed in forming his trading judgment. The points to be discussed here relate to the principles which should govern the actual conduct of the operations decided upon.

I do not believe it is possible to reduce trading to a matter of fixed rules. But

there are certain principles which are of general application, and if disregarded those who disregard them usually find cause for regret. At all events, any method that is to succeed permanently must, at the least, not be antagonistic to them. Moreover, a sound method must contain possibilities of success. Most office traders seem never to have arrived at the point of evolving any coherent method at all. Among the relatively few who have, it is surprising how frequently one comes across ideas which under no conceivable circumstances could result profitably in the long run.

Nevertheless, any trader who expects to succeed must, in some way, work out a workable method suited to his own idiosyncrasy, and in harmony with sound basic principles, some of which are to be discussed here. Each trader must do this for himself. I cannot imagine the possibility of two traders trading alike, even to any considerable extent. Nor can I imagine that any rules that I, or anyone, could formulate would apply, as they stand, to the needs of anyone else.

Assuming a trader starts in to operate in conformity with some such principles as are to be laid down herein, his efforts will at first take a twofold form. He will have to learn the technique of trading and find out what it does or does not pay to do. In that way he will gradually evolve a set of more or less definite rules for his own guidance. His second object will be to learn to obey his own rules. It is extremely difficult to acquire the habit of obeying one's own rules, to say nothing of following precepts laid down by someone else. No matter how long experience a trader has he does not forget that his rules are only his own offspring.

But it can be done, and must be done, if trading is to be anything more than haphazard gambling—with the odds hopelessly against the gambler. I have said, in a former Note, that the only really valuable assistance that one market student can render another is by way of judging the so-called trend in regard to the intermediate movements of the market. It would be illogical and dishonest to deny that an experienced market expert, assisted by study of compe-

hensive statistics, could not form a more trustworthy judgment of the probable outlook than others less experienced and well equipped. But the trader must, for himself and of himself, supply the technical trading knowledge and detailed trading judgment required in acting upon the advice given. It is from this point of view that this Note is written.

The experience of generations of traders has evolved certain rules and maxims, the violation or contravention of which has been found to be unprofitable. Almost all traders have heard of them, but few allow themselves to be guided by them. The two really fundamental, basic laws, which are (as the Late Dickson Watts said) laws absolute, meaning laws not permitting qualification or evasion, are the best known and most universally broken of all. I refer, of course, to the prohibition of overtrading and the insistence on cutting losses short.

These laws, and the maxims to be discussed here, appeal to me as a sort of profession of faith, and I propose to give them *seriatim*, with such annotations as may seem necessary to explain how I regard them in their bearing on my own operations.

These laws and maxims do not profess to form a complete method of trading nor to comprise all the rules that bind me. I doubt very much if any complete set of trading rules is a possibility, and I certainly do not know, completely, how I arrive at my decisions. But the trader who desires to regulate his operations methodically, simply must begin somewhere, and if he begin by following some sort of arbitrary code founded on some such basis he will at least avoid aimless splashing around in the edge of the sea of speculation. Too many traders are doing that, and all they get for their pains is to get wet and dirty without learning to swim—even if they don't get drowned!

(1) Never Overtrade.

For the office trader this law means two things. Not only must he not take on too many shares at a time, but he must not incur a disproportionate risk on any single commitment. In another Note I have entered at length into the subject of definitely regulating the num-

ber of shares to be taken. But it is also overtrading to make a commitment without a valid trading reason. The very essence of methodical trading is that every commitment shall be made only when indicated by the particular method of judgment-forming adopted. To make a commitment otherwise is to make it under conditions in which the trader's judgment, in so far as it is the development of methodical experience, is suspended. It is a blind gambling guess—for him.

(2) Cut Your Losses Short.

This law is as old as trading itself, and is disregarded as cheerfully today as ever. The man who makes a trade and neglects or refuses to take steps to minimize his loss if it goes wrong, is, in fact, assuming that the judgment upon which he made his commitment is infallibly correct. Which reasoning itself shows his judgment defective, to say nothing of his deficiency in horse sense! No matter what anybody may think or say, the outcome of a trade is at least to some extent a guess until it has been closed. It is impossible for a trader to tell beforehand how much profit he will get if his guess has been right, but it is quite within his power to limit his possible loss within comparatively narrow limits.

The whole subject of "stops," however, needs treatment in some detail, and will form the subject of a separate Note. It is, in one form or another, the pivotal point in trading, and, for my part, I am as little willing to discuss the question of stops or no stops as I am to waste my time on the question of squaring the circle or perpetual motion.

(3) Don't Despise Small Profits.

The maxim, "Cut your losses short" originally went on, "Let your profits run." This unfortunate phrase is responsible for a lot of harm. It is about the only part of the rule that most traders seem to remember, and its effect is the disastrous one of causing them to despise small profits. It is perfectly true that a trade is made, usually, because there is reason to hope that a more or less substantial swing may be imminent. But in actual practice, even when a ten-point swing is correctly forecasted and results in ten or more points profit, about the

only trader who will secure the ten points will be the one who would, on the whole, rather have ten one-point profits than one ten-point profit!

The trader's object is to secure an average profit from a comparatively large number of transactions. At the time of making any particular trade he has no possible means of knowing whether that particular commitment will result in a loss, a small scalping profit, or a substantial one. His very first idea must be to train his mind to regard each separate commitment as merely part of a connected series. As he knows that a considerable proportion of his trades will have to result in losses in any case, he must take steps to maintain a just balance between two somewhat incompatible requirements. On the one hand he must not permit a profit of reasonable size to turn into a loss by failure to take it when offered, unless he has some good ground to anticipate a still larger profit. On the other hand, seeing that his prime object is to make as many good profits as he can, he should, generally, only grab a small profit when his particular methods call for that course of action.

(4) Never "Buck the Trend."

There are cases in which a certain stock seems likely, in fact appears certain, to move in a given direction, regardless of what the rest of the market does. A week hardly passes that I am not told this interesting fact about some gold-brick specialty. Sometimes it really does happen, too. But the reason why I never grasp the chance to make a few millions of this sort of easy money is that it is out of my line, not to mention a few other good and sufficient reasons!

But the case does come within the legitimate scope of the methodical trader's purview when such a condition exists in respect to one of the leading trading stocks. For example, when such a stock has evidently been "pegged" at a certain price I am suspicious of a nigger somewhere around. And in general, when the technical indications are unusually strong in a certain stock it may often prove good business to take on some when the trading trend does not actually contravene the proposed commitment. I shouldn't care to go further than this,

however, under any provocation, and buy anything whatever if the trading indications were downward. Experience proves that it does not pay to buck the trend. To do so implies almost certain knowledge that a certain stock will move in a certain way; which is, of course, absurd.*

(5) Trade Only in "Normal" Markets.

A very old adage is based on this idea: "The best side to take in a panic is the outside." At those times, which occur once or twice a year, when some striking event happens, or some condition arises, strongly influencing public sentiment, leading to more or less violently erratic and feverish markets, the ordinary routine of market action is upset, and orderly trading is impossible. In such cases the risks are out of proportion to the chances of profit. In other words, the betting on any single commitment becomes less than even in respect, especially, to the comparative value and effectiveness of a close stop. The game becomes too expensive. Keep out and watch it from the outside.

(6) Never Buy on Bulges or Sell on Slumps.

I really think I ought not to insult the intelligence of the reader by discussing this maxim. It is so plainly obvious horse sense that the "public" is mistrustful of it, and invariably does the very thing interdicted!

The foregoing paragraphs contain statements of general principles that, in my opinion, are of practically general application under all conditions. They have the force of laws to me, at all events, and when I act contrary to them I almost invariably have to pay for it. The following recommendations are not quite so binding. Cases arise to which they do not apply with full force, although they are sound in principle. A good deal depends upon the amount of the trader's experience and his mental agility.

(7) When in Doubt—Get Out.

A trader should buy because he is bullish, and must not allow himself to

be bullish because he is long. His long trades are only justified so long as he has reason to remain bullish. That is to say, having bought a stock and a rise in it having occurred, although it may not have shown any signs of "toppiness," he must get out, or put on a fractional stop—which is apt to mean the same thing, and cost him a few eightths to boot—as soon as he ceases to be bullish on the trading situation. He is only justified in holding on so long as he is still of opinion that the rise is still on, and his opinion practically as strong as when he diagnosed the rise.

(8) Cut a Trade That Does Not Make Good.

It seems, at first sight, absurd to get out of a trade which has not actually gone wrong while the trader's judgment on the trading situation in general has not changed. Nevertheless, it is the observance of this rule which assists the trader to whittle the average size of his losses down to smaller and smaller fractions of a point. I repeat, it is the losses that have to be watched from the beginning until the end of the trader's career. It will be noticed how little I ever have to say about profits. Take care of your losses and your profits will take care of themselves.

This rule comes into force, particularly, when the wrong one, out of two or three apparently suitable stocks, has been selected. The common impulse is to imagine that the stock is simply being "held back" and will come along with a rush later. Perhaps it may, and perhaps not. At any rate, the expected move is here, and the stock is not in it. Evidently the reasoning that selected the stock as the best bet was mistaken. Note that it should have been the best, not one of several good ones, but actually better than the others. When the stocks that did make good begin to wobble, if not before, the trader should cut his trade. Otherwise he is bullish on a stock because he is long of that stock, and not because he is bullish on the situation and that stock together. When he ceases to be bullish on the trading situation he should necessarily cease to be bullish on that stock. His risk is increased, and his probability of profit diminished, no matter how he looks at it.

*Since the above paragraph was written Steel common has done that very thing. Having been "pegged" at 73½, and failing to rise above 76 three times, a short sale around 75, with stop at 76½, has proved to be worth six points.

(9) Never Let a Profit Run Into a Loss.

This is a principle, the violation of which causes more mental distress and consequent impairment of judgment than almost any other single thing I can think of. It must, of course, be understood and applied with a modicum of common sense. The principle of "following up" with stops covers the ground to a certain extent. But there are numerous cases to be met with in trading that should be treated in a different manner. In quiet markets an indication is sometimes given that justifies a trade. When the trade has been made the market remains dull, after a half-hearted move in the anticipated direction, without giving any apparent reason to cut the trade for either of the causes covered by principles (7) and (8). A small profit exists. Under such circumstances a stop at the "flat" price is, of course, indicated, and should go in at once as a matter of precaution. My experience is that nearly every time I had better take that little profit if the move is not resumed almost at once.

(10) Trade Always "At the Market."

The only trading orders with prices attached should be "stop" orders. The commonly overheard remark, "I tried to buy so-and-so, but they wouldn't let me have it," or "I couldn't get out," is nothing short of nonsense. If I decide that any stock, suitable for trading purposes, is a buy, it means right here and now, and if it is a buy it is equally a buy an eighth

or a quarter higher or lower. If I am long of such a stock, or any stock, and don't like my position, I must get out. Why should I haggle over an eighth or quarter if I were in danger of losing even one point?

Another point is, that the trader gains as much as he loses in the execution of "market" orders. By hypothesis, he is likely to put in buying orders during weakness, and vice versa. If he does so, and does not get good executions on average, it is not the fault of the orders. He had better change brokers.

There is one method for one man. I am convinced that there is just one way in which any one man can make money in stock trading. That is the one method which suits his particular idiosyncrasy. The method and the man must come together. That is why I take the position that all I can do is to suggest principles, to be worked out by each trader for himself, and do not suggest any hard-and-fast rules by which to trade. Almost every detail of trading involves an exercise of judgment, and no two men's mental processes are identical. The principles of market movements may be, and I believe they are, uniform, but the momentary manifestation of them is never twice the same in all respects. Logic, as well as common sense, is dead against mechanical methods of "beating the game."

(To be continued.)

"Lest We Forget"

By FRANK H. TUBBS

ALL students of the stock market are seeking a way of trading which will insure permanent success. The December issue of THE MAGAZINE OF WALL STREET contained so much of value that I fear readers will fail to pick out what they can well use. There is possibility that too hearty a feast may be spread at one time. Perhaps a review of some of the courses, or analysis

of the nutritive qualities of some one course, may assist students in selecting what will help toward securing the definite way of trading which students so much desire.

There are tens of thousands of students of the market. The number has increased many fold during the last ten years. How many have devised definite methods of successful money making?

The question is frequently asked "Have you ever known a chart-fiend to make money?" "A Retired Broker's Letter to His Son" in the December number, seems to imply that intensive chart-study hinders successful speculation.

A student can become so interested in mere study that his mind will lose sight of the purpose of study. To warn against this obsession was the intent of the "Retired Broker." Then what we must point out is that the real object of keeping records and charts must be kept steadfastly in mind, namely, the discovery of a method of trading. "Use your charts to reinforce your memory." That can be supplemented by "Use your charts to show you a theory and to illustrate its workings."

A gentleman recently told me that he possessed twenty-one methods of successful trading. I told him he would eventually condense them to just one and use that and that he would not succeed in speculation until he had done so. Subsequent conversation showed that with his twenty-one methods he had never made money. It was because he had so many methods that his mind was distraught. He could not use even one of them.

Becoming successful always depends on the man, the training of his own mind, and I believe concentration and selection is the first essential. When dependable selection has been made, courage to act upon it is all that is needed.

"Look upon your charts as concrete stock market history and remember that history seldom repeats." My study leads me to criticise adversely that instruction. It is a mistake which many students make to expect that exact action to the eighth (or even half point) will be repeated several times. That may occur, but it is only coincidence. But manipulation does repeat history and that very often. It does so often enough to form a basis for methods. This was illustrated in the description of a successful trading campaign in Lehigh Valley by Mr. Lake, to which I propose to refer more at length later.

Manipulation of several popular stocks is intrusted to one individual. His bent of mind is demonstrated in his work.

What he has done before he will do again, adjusting himself to the temporary conditions of the day. Manipulation must, necessarily, be influenced by the supply and demand of the day or hour. That causes fluctuation of the stock, with repeated haltings and rushes. But back of this is the purpose of the manipulating mind and that is pretty sure to find the way to carry out the original design.

Study of the plan which an individual manipulator has used is what charts permit. That he will use the same plan again and again, varied in detail each time, is as inevitable as that every time a man writes his name it will be very nearly like the way he has always written it.

I was told some weeks ago that a certain large trader was engaged to put a certain stock to fifty. It was then selling around 31. I determined to watch that manipulator's foot-marks. He succeeded in carrying the price to 43, and in a most interesting manner. I am convinced that when that man undertakes another campaign he will use the same ways, varied according to temporary needs, and that I can utilize what I learned during his recent campaign and make some money. He will, if his life is spared, be employed many times during the next ten years, just as Mr. Keene was selected, for a generation, to make a market.

This is the kind of history which does repeat—and the way of using charts and records suggested by this paragraph is practical. The moment's thought permits me to emphasize my idea that merely keeping the charts must not become an obsession. The deductions from charts—the lessons which they teach—are the values.

"Don't buck the trend. . . . Having got your trend right, buy only on dips and sell on strong spots." That remark contains the essence of all instruction and THE MAGAZINE OF WALL STREET is our creditor to the extent of many thousand dollars for having given it to us.

How do you decide on the trend? Nothing but records and charts can tell you. Score one again for charts. There are two points which must be determined

about the trend, the direction of the grand movement and the direction of the intermediate swings. (These demand, too, that the student shall be able to determine culminations of each.)

It is plainly manifest that the grand movement has been upward for five years. There have been two very severe reactions—those of 1910 and 1911. Could you tell, in January, 1910, that the trend of the bull movement would be temporarily downward? Could you tell, in August, 1910, that the long bull movement would be resumed? Again, in June, 1911, what told you there would be a four months' decline, or that from October, 1911, there would be a year's bull market?

The things which produced these movements, discover what they were if you can, will produce them again and again while you are alive. There is the target at which you are to aim. Train your guns on the bull's eye. Concentrate your chart and record study. It may solve the problem of future trends.

I have wished our highly prized magazine could publish instruction on "Sure ways of judging the trend." I have wondered if prizes for such articles would not bring out something worth while. The "Retired Broker" evidently knew a way and hundreds of successful speculators must have other ways—each his own—or they would not be successful.

The whole secret is contained in discovering the trend. The plan of trading, "Buy only on dips and sell on strong spots," has dozens of ways of execution. To use them the trader must employ his "other self"—not the bookkeeper who keeps charts. Every man has two "selves"—the student and the executive. Examine every result and we find preparation and action.

"Don't be a dabbler or a quitter." That is good. It is said that brokers renew their entire following every three years. I believe "longevity" has been increased since THE MAGAZINE OF WALL STREET started; but the fact remains that very much more than a majority of those who speculate stop after a time. Not all are compelled by loss of all their money. More of them reach the "What's the use?" stage. If, at that moment, a man develops a square jaw,

a little cool brain and relaxed nerve, he will permit the fact to dawn upon his consciousness that he can succeed if he goes at it with that degree of common sense which others have used.

Nothing great has been accomplished without workers got to, or very near, the "What's the use?" stage. That things have been accomplished, rising from most discouraging appearances, demonstrates that it can be done again. It depends on you. If you are a "quitter," that ends it. If you will use the means of preparation in your own knowledge and manhood which are now at your service you can, and will, succeed.

"Adam Sourguy" (by the way, that is one of the funniest *noms de plume* I ever saw) says, "The whole system of manipulation is to induce people to buy when they should sell and sell when they should buy."

Of course. There are two principal parties to the business, insiders and the public. It is like, in most respects, any other commercial transaction. The merchant displays his stock attractively and the public takes it off his hands. Merchants could not thrive without the public. Stock market merchants, according to the above quotation, must hypnotize the public into buying and selling at the wrong time.

Is not, then, a most important lesson contained in his remark? It is easy to say "I'll sell when everybody else is buying and buy when nobody wants them," but can you do it? When insiders want the public to buy they use every means at command to hypnotize. Newspapers, magazine articles, brokers' advice, advertising, tales of good things coming, etc., *ad abnuseam*, are merely implements. What we must do is to know that hypnotism cannot reach our minds.

Experience shows it is not enough to be certain that the public is being fooled. Again and again I have heard men say, "Stocks are too high. I can't buy them here," but they won't sell them short, although it was just the correct time for selling. Why would they not? They, with all the rest, were under hypnotic sway, less effective than in the cases of those who did buy, but sufficient to prevent proper action.

(To be concluded in February.)

INQUIRIES

This department is to answer miscellaneous questions in regard to the science of investment, methods of operating, the customs of the markets, etc. Please write questions briefly and, if personal reply is desired, enclose stamped and self-addressed envelope. Address INQUIRY DEPARTMENT.

Railroad Statistics.

Is there any book or review published from which an investor could make up a statement on New York listed stocks quickly, like the table shown on page 101, of your December issue? If so, what is the price, and where can it be obtained?—R. N.

In the November issue of "The Magazine of Wall Street," page 37, we gave a list of the most convenient sources of statistics for the purpose you desire. In order to make up a statement covering ten or a dozen years past, it is usually necessary to consult the back volumes of the various statistical manuals, which are kept on file in public libraries and by many banking and brokerages houses.

Small Lots of Wheat.

R. H. F.—Referring to your inquiry in regard to brokerage houses executing orders for 1,000 bushels of wheat, such orders cannot be executed on the New York Produce Exchange, as the minimum quantity trading unit there is 5,000 bushels. On the Chicago Board of Trade orders can be executed for 1,000 bushels, but most of the wire houses at New York do not care to handle these small orders.

Seasonal Changes in Statistics.

Will you kindly let me know the correct way to eliminate the seasonal changes in making charts of railway earnings, bank clearings, etc., in order that the true trend may be shown on the chart? I have a system of my own by which I compare 10-year averages and averages of the 12 months in the year with present figures, but I am not sure that the result is reliable.—C. J.

The correct way to eliminate seasonal changes from statistics, is as follows: Get the statistics monthly as far back as practicable; then figure out the monthly average for the entire period. For example: If you were able to get the statistics monthly for the last 12 years, you would add the 144 items and then divide by 144 to get the monthly average for the entire period.

Then get the average in the same way for the 12 Januaries, dividing the sum of all Januaries by 12; next the average for 12 Februaries, and in the same way for the other months.

You will then be able to see the per cent. by which each month of the year varies from the average for the whole year, and you can apply this correction to the monthly figures as they come out.

This method could not be successfully applied to a period of less than 10 years, and the longer the period for which you can get the

statistics, the better. We presume the philosophy of this will be clear to you. The point is that figures for each month of the year habitually exceed or fall below the monthly average for the entire year, by a certain per cent. You figure out this per cent. on the basis of the past ten years; then you assume that the per cent. of seasonal variation will result substantially the same for the current year as for the ten preceding years. On this basis, you modify current monthly figures by the per cent. for each month obtained as above, thus eliminating seasonal changes and getting theoretical figures which fairly represent changes based on other causes.

Broker's Responsibility for Cash Deposit.

If I hand over \$1,000 cash to a broker with an order to buy some stock outright, and the broker fails before he delivers the certificates to me, do I stand a chance to lose anything? Suppose he fails with assets equal to 50 per cent. of liabilities, do I get my stock in full or only 50 per cent?

In the same case, how would my account be handled if I had \$1,000 deposited with a broker and no trade outstanding at the time, having given no orders as yet?—W. R.

If you have a cash deposit with a broker without having placed any orders, or if you had placed an order to buy stocks for cash outright and the certificates have not yet been delivered to you, you are a preferred creditor in case of the broker's failure. The money on deposit belongs to you and you have the right to demand its return. If the broker has confiscated the money for his own use, he is liable to criminal prosecution.

In some cases a broker, when in severe straits, may take the chance of criminal prosecution by making use of cash so deposited, but in most cases a prompt and vigorous demand by the customer for the cash which he has thus placed in the broker's hands will result in his getting it from the receiver of the failed firm.

If the customer is accustomed to do business with the broker on margin, then it would naturally be assumed that his deposit was intended for margin trading and he probably would not be considered a preferred creditor, but would have to take his chances with other creditors of the same class in the winding up of the firm's business by the receiver.

Form of Order in Cotton.

Will you kindly answer this question in your magazine—"How to send in an order by mail to a cotton broker." For example: I want to buy 100 bales of May cotton, if market

touches 12.05, put a stop at 11.75 and take profit say at 12.40. Also how to write an order to sell short at 12.05, stop at 12.40 and take profit at 11.75?—U. N. O.

Your first order should be worded as follows: "Buy 100 May cotton at 12.05, stop 11.75, close at 12.40." Your second order would be: "Sell 100 May cotton 12.05, stop 12.40, close at 11.75." These orders would be good for the day only. If you wished your order to remain standing, you would add "Good till cancelled."

Broker's Right to Pledge Customer's Stocks.

The brokers with whom I trade have lately placed the following notice on all their statements of account, memoranda of sale or purchase, etc., and I would like to ask if this is perfectly right and proper:

"It is understood and agreed that all securities carried for your account, or deposited to secure the same, may be carried in our general loans or pledged either specially or generally on any loan we may see fit to make and may be bought or sold at public or private sale without notice, when such sale or purchase is deemed necessary by us for our protection, that we may settle contracts for the purchase or sale of securities in accordance with the rules and customs of the New York and Philadelphia Stock Exchanges and that all statements of accounts current as rendered you from time to time are acknowledged by you to be correct, unless written notice is given us within ten days after their receipt of any exceptions thereto."—J. S.

The paragraph which is printed on all memoranda issued by your broker appears to be correct and in accordance with the general custom of New York and other stock exchange houses.

Estimating Intrinsic Values.

J. H.—It is a very difficult task for any one to estimate the intrinsic value of a stock. Take U. S. Steel common which, on the basis of the Government appraisal, would have a value of about \$70 per share. Suppose the corporation were to be disintegrated, its ore properties segregated, and nothing left but a lot of component parts of the former whole, the intrinsic value might be seriously affected, perhaps cut in half. We could not undertake to give you such estimates, and we do not know of any one to whom we could refer you, whose opinion would be sufficiently reliable for the purpose mentioned.

If you buy stocks in a panic, you are almost certain to secure them at far below whatever intrinsic value might be placed upon them by any expert. Have you ever read our story "A Specialist in Panics?" It is printed in a book entitled "Fourteen Methods of Operating in the Stock Market," bound in leather, \$1 postpaid. This will give you some excellent ideas.

Our Trend Letter will enable you to tell

when these situations are about to develop; that is, whether the trend of the market is up or down, and hence whether the time is approaching when you may secure some of these bargains.

Stock Market Barometers.

I wish to keep the charts recommended in your "Notes on Office Trading" in the October number of the "Magazine of Wall Street," and would like to learn if a chart of the "Barometer" of 40 active stocks should be compiled from early in 1909, as suggested in regard to the "ten stock barometer." If so, how am I to get the data for such a chart? Also please advise me if the individual charts mentioned are to be compiled from 1909 to date or from day to day now.—C. L.

It is largely a matter of personal choice as to making up extensive chart records of the past fluctuations of the market. In a general way, the more extensive these records are the better, but the labor of compiling the charts is so great that probably the majority of students would not make up a barometer of 40 active stocks back to 1909. The 10 stock daily barometer, together with the Dow-Jones averages as given in the book of charts called "Twenty-five Years in the Stock Market," price 30 cents postpaid, would probably answer the purpose. A weekly barometer chart of the 10 stocks could quickly be made up from the daily chart after it was completed.

The most convenient place to find past prices of stocks is in the files of *The Commercial and Financial Chronicle*. This is kept on file at most of the large public libraries.

In regard to charts of individual stocks, we should say that daily charts of several of the most active stocks over a period of a year or more back would probably be sufficient to answer your purpose in the way of past records. Your present records, based on the action of the market from day to day, could be as elaborate as you desired, but it would hardly seem necessary to carry all these different forms of charts back to 1909.

For some months—since January, 1912, if we remember correctly—the *New York Times* has published a daily barometer of 50 stocks, 25 rails and 25 industrials. Every Sunday the figures for the entire week are given. It would probably pay you to compile this barometer from the files of the paper.

Call and Time Money.

What is meant by "call money" and "time money," as quoted in newspapers?—T. S.

Call money is that loaned on stocks or bonds as collateral, subject to recall by the lender or return by the borrower whenever desired. Time money is loaned for a certain specified time, as 30, 60, or 90 days. The call money rate fluctuates more widely than time money because it is subject to variations of demand and supply from day to day.

Book Reviews

Auditing—Theory and Practice. By Robert H. Montgomery, C.P.A. Half leather, 700 pages, with index, price \$5 net. (Ronald Press.) For sale by The Ticker Publishing Company.

Mr. Montgomery is the President of the American Association of Certified Public Accountants. He has had many years of experience in auditing. In his preface he says:

"There is a demand for a practical book on auditing which up to this time has not been met. If my twenty-four years of continuous experience in professional accountancy work is a sufficient practical training, I trust I have established a *prima facie* excuse for the presentation of this book, which contains more of practice than of theory."

The work devotes special attention to the practical side of the auditor's business, but presents throughout a high ideal of the responsibility and standing of an auditor. Some of the subjects treated are: Purposes of an Audit; Auditor's Qualifications and Duties;

How to Begin an Audit; Balance Sheet; Fixed Assets; Capital; Contingent Liabilities; Profit and Loss Account; Certificates and Reports; Verification of Income; Purchases and Expenses; Trial Balance; Depreciation; Different Classes of Audits; Investigations; Holding Companies; Liabilities of Auditors and Directors; C. P. A. Laws and Examinations, etc. The work appears to be the most complete and practical of any yet issued on this subject.

Tables of Bond Values. By Montgomery Rollins. Nineteenth edition, leather, \$3.10 postpaid. For sale by Ticker Pub. Co.

The 19th edition of this standard handbook calls for no special comment. In simplicity of arrangement, convenience and accuracy it has no superior. It is condensed into a size easily carried in the pocket for prompt reference. It covers interest rates of 3, 3½, 4, 4½, 5, 6 and 7% for periods of 6 months to 100 years, with special tables for 4¼%, 5½% and 8%; also stock values and interest tables.

Readers frequently ask to be referred to responsible brokerage houses. In making such a request, please state what amount you have for investment, or in what sized lots you wish to deal. Also state what large city is located most conveniently to you, or if you have any preference in this regard.

We refer our readers only to such houses as we would consider safe custodians of our own funds, but of course can take no further responsibility.

The Figure Chart

The following figure chart completes the chart on page 108 of the July, 1910, MAGAZINE OF WALL STREET, down to date given below. It is based on the daily average closing bid price of 20 standard railway stocks, and gives a general view of the course of the market since June, 1910.

June	July	Oct.	Feb.	June	Sept.	Nov.	Apr.	Oct.	Dec.
22.	27.	18.	20.	7.	27.	23.	20.	5.	16.
1910.				1911.			1912.		
124								4	4
123				3 3 3				3 3 3 3	
122				2 2 2 2			2	2 2 2 2	2
121				1	1		1 1 1 1	1 1	1 1 1 1
120				0	0		0 0 0 0 0 0 0	0	0 0 0
119	9*			9	9	9	9	9 9 9 9	9
118	8 8			8	8 8 8 8	8	8 8 8	8	8
117	7 7			7 7	7 7 7 7	7	7 7 7 7 7 7		7
116	6 6			6 6	6 6	6 6	6 6 6 6		6
115	5 5	5		5 5 5	5	5 5	5		
114	4	4 4	4 4 4 4			4 4 4 4			
113	3 3	3 3	3 3 3 3			3 3 3 3			
112	-2 2 2	2 2 2	2 2 2			2 2			
111	1	1 1 1				1 1			
110	0 0 0				0				
109	9 9 9								
108	8 8								
107	7 7								
106	6								

*In order to condense the chart, only the last figure of each number is given. Thus 9 representing 119, etc.

Essential Statistics Boiled Down

THE figures below give a complete view of the financial and industrial situation, with the best available comparisons for the corresponding month (or nearest month obtainable) in each of the four preceding years.

	Average Money Rate Prime Commercial Paper New York	Average Money Rate European Banks	Per Cent. Cash to Deposits, New York	Per Cent. Loans to Deposits, New York	Per Cent. Cash to Deposits, All National Banks.	Per Cent. Loans to Deposits, All National Banks.	Per Cent. Circulation	Money in First of Month.
December, 1912.....	6	5	25.0	102.5	....	....	....	\$34.64
November, 1912.....	6	4 $\frac{1}{2}$	25.2	101.0	....	....	....	34.59
October, 1912.....	6	4 $\frac{1}{2}$	25.4	100.3	15.2*	102.9*	34.42	
December, 1911.....	4 $\frac{1}{2}$	4 $\frac{1}{2}$	26.1	100.8	16.3*	103.7*	34.54	
" 1910.....	4 $\frac{1}{2}$	4 $\frac{1}{2}$	25.7	103.2	16.6*	106.8*	35.10	
" 1909.....	5 $\frac{1}{2}$	4 $\frac{1}{2}$	25.8	101.9	17.1*	103.0*	34.98	
" 1908.....	4 $\frac{1}{2}$	3	26.2	95.6	19.1*	105.1*	35.39	

*September.

	New Securities Listed N. Y. Stock Exchange (000 omitted)	Bank Clearings of U. S. (000 omitted)	Bank Clearings of U. S. Excluding N. Y. City (000 omitted)	Balance of Gold Movements —Imports or Exports. (000 omitted)	Balance of Trade Imps. or Exports. (000 omitted)
November, 1912....	\$101,728	\$15,458,870	\$6,639,033	Im. \$1,675	Ex. \$124,763
October, 1912....	99,004	17,249,398	7,110,401	Im. \$11,557	Ex. \$76,701
December, 1911....	80,520	14,101,120	6,027,245	Ex. 10,482	Ex. 75,590
" 1910....	96,828	13,631,598	5,817,294	Im. 2,937	Ex. 76,834
" 1909....	106,324	14,786,232	5,722,505	Ex. 11,785	Ex. 53,490
" 1908....	13,218	12,990,265	4,799,242	Ex. 58	Ex. 57,337

	Bradst's English Index of Commodities Pcs.	Index of Commodities Pcs.	Whole- sale of Iron Price of (Tons.) Pig Iron. (000 o'td.)	Produc'n of Iron of (Lbs.) (000 o'td.)	Price of Copper per (Lbs.) (000 o'td.) (Cents). (000 o'td.)	U. S. Produc- tion of Cop- per (Lbs.) (000 o'td.)	U. S. St'l Tonnage
December, 1912.....	9.55	27.21	\$18.88	....	17.3	....	....
November, 1912.....	9.48	27.22	18.65	2,630	17.4	134,695	7,852
October, 1912.....	9.45	27.40	18.00	2,689	17.3	145,405	7,594
December, 1911.....	8.98	25.97	14.88	1,999*	13.5	111,876*	4,142*
" 1910.....	8.79	24.61	15.53	1,909*	12.6	119,000*	2,760*
" 1909.....	9.12	23.33	18.75	2,547*	13.2	121,000*	5,927
" 1908.....	8.21	21.98	17.25	1,577*	14.1	....	3,603

*November.

	Net Surplus of Idle Cars.	Building Operations, Twenty Cities.	Business Failures. Total Liabilities.	Winter Wheat.	Corn.	Crop Conditions.	Babson's Average 10 Leading R. R. Bonds.
December, 1912..	36,401*	....	\$14,739,068	93.2	....	....	95.2
November, 1912..	51,259*	\$38,542,414	\$41,131,514	....	....	....	96.4
October, 1912..	31,579*	37,929,447†	15,126,862†	86.6	70.4†	82.2	96.2
December, 1911..	36,143	42,831,459†	12,757,597†	82.5	80.3†	97.6	98.2
" 1910..	44,014	38,063,000†	10,199,253†	95.8	73.8†	80.3†	100.5
" 1909..	38,887	44,627,000†	13,300,758†	85.3	77.8†	77.8†	101.9
" 1908..	175,643	....	....	....	....	....	....

*Shortage. †November. †October.

The Situation Summarized

[While an attempt is here made to divide the important factors into favorable and unfavorable, this classification is for convenience only. It should be fully recognized that the same factor may have a bullish effect in one direction and bearish in another, or may be bullish in its immediate influence, but containing dangerous possibilities for the future. Also, it would be impossible to strike a balance in this way, as one bullish factor might be so important as to outweigh all bearish considerations, or vice versa.]

Favorable

Crops. Department of Agriculture estimates total value of 11 principal crops for 1912 at \$3,911,449,000, an increase of \$50,531,000 over 1911. Increases over last year were as follows: Corn, 593,258,000 bu.; wheat, 108,929,000; oats, 496,039,000; barley, 63,584,000; rye, 2,545,000; buckwheat, 1,700,000; rice, 2,120,000; flaxseed, 8,703,000; potatoes, 127,910,000; hay, 17,775,000 tons; tobacco, 57,716,000 pounds—a truly wonderful harvest. Cotton, however, now estimated about 14,000,000 bales, against 16,597,000 last year.

Bank clearings highly satisfactory, showing great commercial and industrial activity, with less money than usual absorbed in speculative operations.

Railroad earnings excellent, with special improvement in the South. The big crops are giving the railways a splendid season. Expenses also high, however.

Steel business still very large, but there is a slight slowing down of new orders. Mills working full time and deliveries slow.

Copper firmly held above 17½c. Producers expect an enlarged foreign demand if peace is established abroad. American stocks now largest since January, but still not abnormal.

Balkan war practically suspended and peace outlook hopeful. Believed now that Austro-Servian difficulty will be successfully adjusted.

January dividends and return of money from the country after the turn of the year will result in relieving financial situation at New York. It is expected that the return flow of money will be unusually large, as big crops have required a great quantity of currency this year. If the present easier tendency in retail trade should continue, this also would aid in releasing money from the interior.

Liquidation in the stock market has relieved the money tension and helps to release money for general business purposes. While this liquidation can hardly be called favorable to holders of stocks, it does tend toward the general soundness of the financial situation.

Unfavorable

Money remains firm. There have been several flurries in call money at New York, reaching 20 per cent. Relief from Europe has been impossible because of war stringency there, and the Secretary of the Treasury has not thought it wise to deposit any of the Government surplus in the banks. Better conditions looked for after January 1.

Capital requirements will be heavy in 1913, for governments, railways and industrials all over the world.

Foreign money rates high, largely owing to war possibilities; but bank position relatively weak nearly everywhere.

Union Pacific decision administered a shock to the market because it gave some indication of what the Supreme Court regards as a sufficient degree of competition to come within the injunction of the Sherman Law. It is felt that many industrials and some railroads may be found to be in as bad a position in this respect as Union Pacific. Reading decision had no direct bearing on this point, as anthracite combination was not proved to the satisfaction of the Court.

Tariff reductions apparently a certainty and must prove at any rate temporarily disorganizing to industries affected.

Business failures continue large. Business men apparently find it impossible to raise their selling prices to make up for increased costs.

Bond prices continue heavy. New York City bonds have sold at new low level of 96½. Babson's average of ten leading railroad bonds now at lowest level since 1908.

New securities issued in 11 months of 1912 \$2,036,000,000 against \$1,739,000,000 for 1911 in full.

Retail business a little quieter and holiday trade not as good as expected.

Pujo investigation temporarily unsettling, though it seems to us that good results may be hoped for in the end.

The Outlook

Some of the Factors Beneath the Surface of Current Events

By G. C. SELDEN

THE general course of railroad stocks for ten years is shown in chart form below. The last week given is that ending Dec. 14, 1912.

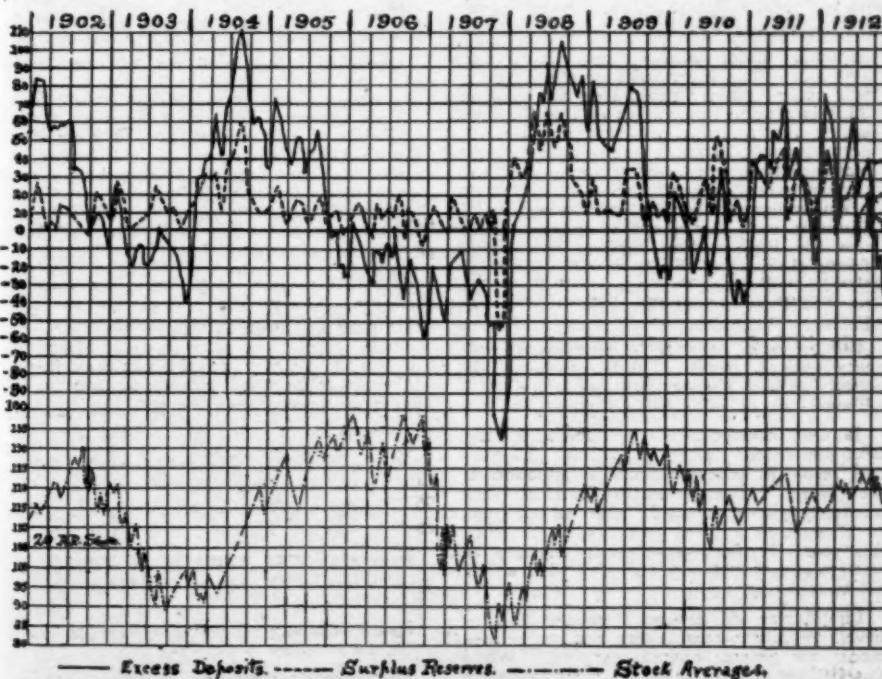
The diagram also shows, in millions of dollars, the course of excess deposits and surplus reserves of New York clearing-house banks (excluding the trust companies). The zero line represents equality of loans and deposits.

Slump in the Market.—I believe our readers will acquit this magazine of having been carried away by the wave of extravagant bull sentiment which swept over the press in general toward the end of November. In our December issue, for which forms close about the 20th of November, our first article, "Looking Forward," brought out bearish considerations clearly. Mr. Chamberlain sounded a note of warning and Mr. Lownhaupt indicated the probability of 25 per cent. call money, while in this department I have taken a very conservative tone for two or three months past. Of course, we do not attempt, in this magazine, to express our opinions as to the im-

mediate movement of prices, but we do endeavor to present the exact facts in a strictly unprejudiced light.

The Union Pacific decision has been the most prominent feature of the news during this slump in the market. The general feeling was that if Union and Southern Pacific were construed by the Supreme Court as direct competitors, so that the combination of the two roads came within the prohibitions of the Sherman Law, many other corporations, both railroad and industrial, might also be found to come under the head of illegal combinations in restraint of trade.

For this reason the entire market was affected. Such industrials as American Can, United States Steel, etc., suffered almost as severely in the decline as the two roads immediately affected. The decision merely constituted a further explanation of what the Supreme Court regards as the limits of the "rule of reason" established in the Standard Oil and American Tobacco cases, and showed that "reasonable restraint of trade" was to be construed within narrow boundaries.



The Supreme Court did not find that any illegal combination among the anthracite coal roads had been proved, and this decision tended to relieve the tension somewhat, especially as extensive liquidation in the market had cleared away many weakened accounts. The Reading decision, nevertheless, does not in any way limit the scope of the Sherman Law as interpreted by the Court. It is left to be assumed that the law would cover such a combination, but that no definite combination has been proved down to date.

Loans and Deposits.—It is a curious fact that, although the market has apparently been declining on foreign conditions and on the Supreme Court decision, our diagram of New York banking conditions predicted the decline as early as the November issue. At that time the excess of deposits over loans had disappeared and a small deficit was shown. Such a condition, coming after a large accumulation of excess deposits and a considerable advance in the stock market, invariably indicates a weakening of the foundations of prices, so that the market becomes vulnerable to bear news and responds with difficulty to bullish developments.

In fact, the connection between this deficit of deposits under loans and the war situation in Europe is much closer than might be thought at first glance. The war resulted in a general rise in interest rates abroad, and this prevented us from drawing gold as freely as we otherwise might have done. Gold imports would have bolstered up our bank position, so that the deficit of deposits under loans might have been avoided. Thus the results of the European war appear plainly enough on our diagram. This is a good illustration of the degree to which the relation of loans and deposits acts as a sort of index to the general financial situation, not only at home but, to a certain extent, abroad also.

An excess of deposits will be restored in January, with the return of money now in use for crop-moving, unless some great financial upheaval should occur in the meantime. How great the excess will be in January will depend on the activity of general business throughout the country.

In 1906, for example, with all business booming, we note from the diagram that only a slight excess of deposits was accumulated in January, and that little was soon

lost again. General business was taking the money away from the stock market.

On the other hand, in 1911 the slackening of trade released a great deal of money so that a deficit of \$40,000,000 in December, 1910, was turned into an excess of \$40,000 in March, 1911.

The present outlook is for active general business in the first half of next year. It is quite possible, however, that the approach of tariff revision may generate a feeling of caution that may check business, thus permitting a larger flow of money back to New York.

Foreign Money Conditions.—There is hardly a country in Europe where the banking situation is satisfactory at the present time. In France, small investors are hoarding gold to an unpleasant extent as a result of war fears. The Bank of France has unusually large gold holdings against the possibility of further unsettlement, but its stocks of silver are depleted and its discounts are greatly in excess of both 1911 and 1910. In Germany the banking position is unduly extended, and private discounts are on a 6 per cent. basis in both Berlin and Vienna. The Bank of England rate has been advanced to 5 per cent., and 6 per cent. is a possibility. Even as far away as India the official bank rate is up to 7 per cent.

While these high rates are in part due to war possibilities, they are also partly a result of a world-wide demand for capital and continued large expenditures for unproductive purposes. The assurance of peace would give a large degree of temporary relief, but the conditions which underlie this widespread firmness in the world's money markets would be likely to cause a reappearance of similar symptoms before long.

Call money.—The table herewith shows the high of call money rates at New York monthly for eight years. It will be seen at once that the money market has served warning on us that fundamental conditions are not all that they might be. In 1905 even higher rates were seen and a year of great prosperity followed, but 1905 was also a year of excited stock speculation, so that the demands of the stock market for money were heavy. That has not been the case this year. The quick rise in rates for commercial paper from an average of 4 per cent. in June to an average of 6 per cent. in October, was another straw pointing in the same direction.

	1912.	1911.	1910.	1909.	1908.	1907.	1906.	1905.
January	4	6	14	3	20	45	60	3½
February	2½	2¾	3	3	2¼	6	8	3
March	3	2½	3	2½	2¼	25	9	4½
April	5	2½	7	2½	2	3	30	7
May	3	2½	6	2½	2	4	12	3½
June	3	2½	3½	2¾	2	12	6	6
July	3	2½	3¼	2	1¾	16	8	3½
August	3½	2½	2	2½	1¼	6	5	3
September	7½	2½	3	4	2½	6½	40	7
October	8	2½	4	6	2	125	9	8
November	20	6	4¾	6	3	75	20	25
December	...	6	7	7	4½	25	36	125

